

**CITY OF GAASTRA**

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**Financial Report  
with Supplemental Information  
Prepared in Accordance with GASB 34**

**June 30, 2008**

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## **INDEPENDENT AUDITOR'S REPORT**

# ***DS Rostagno, CPA, P.C.***

***101 West Maple Street, Iron River, MI 49935  
Tel (906) 265-1040 Fax (906) 265-1042***

Honorable Mayor and Members of the City Council  
**City of Gaastra**  
PO Box 218  
Gaastra, Michigan 49927

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the **City of Gaastra**, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and by the standards prescribed by the State Treasurer. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Gaastra** at June 30, 2008, and the respective changes in financial position and cash flows thereof for the fiscal year ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008 on our consideration of the **City of Gaastra's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 8 through 20 are not a required part of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Gaastra**'s basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinions, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" being more prominent than the last name "Rostagno".

Dianne S. Rostagno  
DS ROSTAGNO, CPA, P.C.

December 18, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# ***City of Gaastra***

P.O. Box 218  
GAASTRA, MICHIGAN 49927  
(906) 265-2141

The management of the **City of Gaastra** provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. As readers, you are encouraged to read this discussion and analysis in conjunction with the City's financial statement information included in this report.

## ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

## ***Government-wide financial statements***

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.



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(906) 265-2141

## ***Government-wide financial statements (Continued)***

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation and health, culture and recreation, and community development. The business-type activities of the City include Water and Sewer Utilities.

## **Fund Financial Statements**

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the City can be divided into three categories: *governmental funds, proprietary funds, and fiduciary funds*.

## ***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spend-able resources, as well as on balances of spend-able resources available at the end of the fiscal year. This information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

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## **Fund Financial Statements (Continued)**

### ***Governmental Funds (Continued)***

The City maintains four governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and major street fund, both of which are considered major funds. All other governmental funds are presented in aggregate. Individual fund data for each fund is presented separately in the "Other Supplementary Information" section of this report.

The City adopts an annual budget for its general and special revenue funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general and major street funds, and is included in the "Required Supplementary Information" section of this document.

### ***Proprietary Funds***

Proprietary funds provide services for which the City charges customers a fee. The City has only one type of proprietary fund - enterprise funds. The enterprise funds of the City are used to report the same functions as the business-type activities in the government-wide financial statements. The Water Utility and Sewer Utility funds are presented separately in both the government-wide financial statements and the fund financial statements. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary fund for the City is the tax collection fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. These funds are presented separately in the fund financial statements section of the basic financial statements.

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GAASTRA, MICHIGAN 49927  
(906) 265-2141

## **Fund Financial Statements (Continued)**

### *Notes to the Financial Statements*

Notes to the financial statements are included in the basic financial statements and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

### *Supplementary Information*

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund and the City's major special revenue funds as presented in the governmental fund financial statements.

Separate combining financial statements for non-major governmental funds are also included in the Other Supplementary Information section of this document.

### *Government-wide Financial Analysis*

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the City, assets exceeded liabilities by \$ 1,329,698 at June 30.

By far, the largest portion of the City's net assets is its investment in capital assets (land, buildings, infrastructure, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2008, the City reported \$ 1,114,364 in net assets invested in capital assets net of related debt.

External restrictions of the City's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$ 138,271 may be used to meet the government's ongoing obligations to citizens and creditors.

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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

Total net assets in excess of liabilities at June 30 for the governmental activities and business-type activities were \$ 249,289 and \$ 1,080,409, respectively.

The following summarizes the comparative net assets at fiscal years ended June 30, 2008 and June 30, 2007:

	<u>June 30, 2008</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Current and other assets	\$ 163988	\$ 64027	\$ 228015
Capital assets, net	<u>97307</u>	<u>1501057</u>	<u>1598364</u>
<b>Total assets</b>	<b>\$ 261295</b>	<b>\$ 1565084</b>	<b>\$ 1826379</b>
Long-term liabilities	0	470000	470000
Other liabilities	<u>12006</u>	<u>14675</u>	<u>26681</u>
<b>Total liabilities</b>	<b>\$ 12006</b>	<b>\$ 484675</b>	<b>\$ 496681</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of			
related debt	97307	1017057	1114364
Restricted	13711	63352	77063
Unrestricted	<u>138271</u>	<u>0</u>	<u>138271</u>
<b>Total Net Assets</b>	<b>\$ 249289</b>	<b>\$ 1080409</b>	<b>\$ 1329698</b>

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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

	<u>June 30, 2007</u>		
	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 130637	\$ 135303	\$ 265940
Capital assets, net	<u>106746</u>	<u>1304663</u>	<u>1411409</u>
<b>Total assets</b>	<b>\$ 237383</b>	<b>\$ 1439966</b>	<b>\$ 1677349</b>
Long-term liabilities	1392	479000	480392
Other liabilities	<u>3314</u>	<u>83520</u>	<u>86834</u>
<b>Total liabilities</b>	<b>\$ 4706</b>	<b>\$ 562520</b>	<b>\$ 567226</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	102040	812663	914703
Restricted	17260	64783	82043
Unreserved	<u>113377</u>	<u>0</u>	<u>113377</u>
<b>Total Net Assets</b>	<b>\$ 232677</b>	<b>\$ 877446</b>	<b>\$ 1110123</b>

For governmental activities, net assets increased by \$16,612.

For business-type activities, net assets increased by \$202,963 during the fiscal year. The Water Fund increased by \$3,870, while the Sewer Fund increased by \$199,093.

# City of Gaastra

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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

For the fiscal years ended June 30, 2008 and 2007, the comparative government-wide results of operations were as follows:

	<u>June 30, 2008</u>		
	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-type</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	
<b>REVENUES:</b>			
<b><u>Program Revenues</u></b>			
Charges for services	\$ 64389	\$ 142401	\$206790
Operating grants and contributions	63524	0	63524
Capital grants and contributions	0	169945	169945
<b><u>General Revenues</u></b>			
Property taxes	65542	0	65542
Other taxes and fees	694	0	694
Unrestricted grants	47464	0	47464
Other	<u>59928</u>	<u>1518</u>	<u>61446</u>
<b>Total Revenues</b>	<b>\$ 301541</b>	<b>\$ 313864</b>	<b>\$ 615405</b>
<b>EXPENSES:</b>			
General Government	\$ 122696	\$ 0	\$ 122696
Legislative	11549	0	11549
Public safety	10021	0	10021
Public works	45291	0	45291
Streets and highways	67153	0	67153
Street Lighting	5740	0	5740
Sanitation and health	8270	0	8270
Culture and recreation	1740	0	1740
Other Expenditures	2953	0	2953
Community development	0	0	0
Interest on long-term debt	77	0	77
Depreciation (Unallocated)	<u>9439</u>	<u>0</u>	<u>9439</u>

# City of Gaastra

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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

	<u>June 30, 2008</u>		
	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>EXPENSES: (Continued)</b>			
<i>Business-type activities:</i>			
Water	\$ 0	\$ 64053	\$ 64053
Sewer	<u>0</u>	<u>46848</u>	<u>46848</u>
<b>Total Expenses</b>	<b>\$ 284929</b>	<b>\$ 110901</b>	<b>\$ 395830</b>
Change in Net Assets	16612	202963	219575
Net Assets, beginning of year	232677	877446	1110123
<b>Net Assets, end of year</b>	<b>\$ 249289</b>	<b>\$ 1080409</b>	<b>\$ 1329698</b>

	<u>June 30, 2007</u>		
	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>REVENUES:</b>			
<b><u>Program Revenues</u></b>			
Charges for services	\$ 62766	\$ 139240	\$ 202006
Operating grants and contributions	68777	0	68777
Capital grants and contributions	0	66558	66558
<b><u>General Revenues</u></b>			
Property taxes	59670	0	59670
Other taxes and fees	971	0	971
Unrestricted grants	49695	0	49695
Other	<u>12896</u>	<u>28983</u>	<u>41879</u>
<b>Total Revenues</b>	<b>\$ 254775</b>	<b>\$ 234781</b>	<b>\$ 489556</b>

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(906) 265-2141

## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

	<u>June 30, 2007</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<b>EXPENSES:</b>			
General Government	\$ 111691	\$ 0	\$ 111691
Legislative	12959	0	12959
Public safety	10073	0	10073
Public works	41336	0	41336
Streets and highways	55716	0	55716
Sanitation and health	9753	0	9753
Culture and recreation	3556	0	3556
Other Expenditures	5214	0	5214
Interest on long-term debt	416	0	416
Depreciation (Unallocated)	<u>10886</u>	<u>0</u>	<u>10886</u>
<i>Business-type activities:</i>			
Water	0	126527	126527
Sewer	<u>0</u>	<u>56463</u>	<u>56463</u>
<b>Total Expenses</b>	<b>\$ 261600</b>	<b>\$ 182990</b>	<b>\$ 444590</b>
Change in Net Assets	(6825)	51791	44966
Net Assets, beginning of year	239502	825655	1065157
<b>Net Assets, end of year</b>	<b>\$ 232677</b>	<b>\$ 877446</b>	<b>\$ 1110123</b>

### Governmental Activities

Property taxes and other tax revenues comprise \$ 65,542 approximately 22 percent of total governmental revenues.



# ***City of Gaastra***

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(906) 265-2141

## **Governmental Activities (Continued)**

Operating grants and contributions for governmental activities ended the fiscal year at \$63,524, primarily attributable to the State of Michigan's Act 51 funding for major and local streets. At fiscal year end, the City reported \$ 47,464 in grants and contributions not restricted for specific programs. This amount was due entirely to the State of Michigan's state sales tax distribution.

The City expensed \$ 284,929 on governmental programs and services. The largest expense category was incurred for general government, which totaled \$ 122,696 or approximately 43 percent of total expenses. Streets and highway expenses were \$ 67,153 or 24 percent of the total, and public works expenses were \$45,291, or 16 percent of the total. Public safety expenses were attributed to management's continuing commitment to preserve the lives and property of the residents of the City, with current year expenses of \$10,021.

## **Business-type Activities**

Business-type activities increased the City's net assets by \$ 202,963. Charges for services for the Water and Sewer activities for the year ended were \$ 66,417 and \$ 75,984, respectively.

Total expenses for the Water and Sewer Fund activities for the year ended were \$ 64,053 and \$ 46,848, respectively.

## ***Financial Analysis of the Governmental Funds***

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

## **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. This information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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## *Financial Analysis of the Governmental Funds (Continued)*

### **Governmental Funds (Continued)**

The City's governmental funds reported combined ending fund balances of \$ 156,836, of which \$13,711 is reserved and the remaining \$ 143,125 is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the City ended the fiscal year with general fund revenues considerably more than both the original and final budgetary projections. Total expenditures were slightly higher than the original projection, but slightly lower than the original budget. And, at fiscal year end, the fund balance was higher than both the original and the final amended budget projections.

Major street fund revenues were slightly lower than the original budget, but considerably higher than the final amended budget. Expenditures were slightly higher than the final amended budget, which was somewhat lower than the original appropriation.

### **Revenues – Actual vs. Budget**

	<b>Revenues Original Budget</b>	<b>Revenues Final Budget</b>	<b>Revenues Final Actual</b>	<b>Revenues Variance Actual vs. Original Budget</b>	<b>Revenues Variance Actual vs. Final Budget</b>
<b>General Fund</b>	\$ 196919	\$ 196129	\$ 237937	\$ 41018	\$ 41808
<b>Major Street Fund</b>	51777	45555	50130	(1647)	4575

### **Expenditures – Actual vs. Budget**

	<b>Expenditures Original Budget</b>	<b>Expenditures Final Budget</b>	<b>Expenditures Final Actual</b>	<b>Expenditures Variance Actual vs. Original Budget</b>	<b>Expenditures Variance Actual vs. Final Budget</b>
<b>General Fund</b>	\$ 196921	\$ 207435	\$ 203406	(6485)	\$ 4029
<b>Major Street Fund</b>	51776	44173	47871	3905	(3698)

# ***City of Gaastra***

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## ***Financial Analysis of the Governmental Funds (Continued)***

### **Governmental Funds (Continued)**

General fund financial and budgetary highlights of the fiscal year include:

- \* Use of money and property exceeded final budgetary projections by \$ 2,780.
- \* Charges for services were equal to the final amended budget of \$9,736.
- \* Distributions from the State of Michigan of \$47,464, considerably lower than the final amended budget of \$57,635.
- \* Expenditures in total for the general fund were \$203,406, lower than the final budgetary appropriation of \$207,436, but more than the original budget estimate of \$196,921.

Major Street Fund financial and budgetary highlights of the fiscal year include:

- \* State of Michigan Act 51 funding for the major streets was higher than the final budgeted amounts; coming in at \$50,076 compared to the final budget of \$45,504.
- \* Total expenditures were \$47,871, lower than budgeted in the original budget by \$3,905 and \$3,698 higher than the final amended budget.

### **Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Water and Sewer Funds at year-end were \$681,552 and \$398,857, respectively. The growth or change in net assets for the Water and Sewer Funds were \$3,870 and \$199,093, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

# ***City of Gaastra***

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(906) 265-2141

## **Accomplishments and Priorities**

The major capital events during the current fiscal year included:

- Completion of sewer renovation project.

Major priorities for the 2008-09 fiscal year include:

- Resurfacing/blacktopping local streets, primarily Second and Third Streets.

## **Economic Factors**

Despite the future economic uncertainty, the City's guiding principles for the upcoming fiscal year are to continue building and maintaining strong neighborhoods, provide good social and cultural conditions that support healthy families, remain a safe and clean city, and invest in opportunities that promote economic growth and financial capacity.

## **Requests for information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City Manager  
City of Gaastra  
P.O. Box 218  
Gaastra, Michigan 49927

## **BASIC FINANCIAL STATEMENTS**

<b>CITY OF GAASTRA</b>
------------------------

**STATEMENT OF NET ASSETS**

*JUNE 30, 2008*

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals Reporting Entity</u>
<b><u>ASSETS</u></b>			
<b><u>Current Assets</u></b>			
Cash and Cash Equivalents (Note C )	\$ 117,714	\$ 31,270	\$ 148,984
Receivables			
Taxes	5,146	-	5,146
Accounts Receivable	-	7,164	7,164
Grants Receivable	-	-	-
Due from External Parties	18	-	18
Due from Other Governmental Units	15,929	-	15,929
Internal Balances	25,181	(25,181)	-
<b>Total Current Assets</b>	163,988	13,253	177,241
<b><u>Noncurrent Assets</u></b>			
Cash and Cash Equivalents, Restricted	-	50,774	50,774
Capital Assets, Net (Note H )	97,307	1,501,057	1,598,364
<b>Total Noncurrent Assets</b>	97,307	1,551,831	1,649,138
<b>TOTAL ASSETS</b>	<b>\$ 261,295</b>	<b>\$ 1,565,084</b>	<b>\$ 1,826,379</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities</u></b>			
Accounts Payable	7,152	675	7,827
Accrued Benefits	4,854	-	4,854
Current portion of long-term debt	-	14,000	14,000
<b>Total Current Liabilities</b>	12,006	14,675	26,681
<b><u>Noncurrent Liabilities</u></b>			
Loans/Notes Payable	-	-	-
Revenue Bonds Payable	-	470,000	470,000
<b>Total Noncurrent Liabilities</b>	-	470,000	470,000
<b>TOTAL LIABILITIES</b>	<b>\$ 12,006</b>	<b>\$ 484,675</b>	<b>\$ 496,681</b>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, Net of Related Debt	97,307	1,017,057	1,114,364
Restricted for Streets and Highways	13,711	-	13,711
Restricted for Water Fund Repairs/Improvements	-	79,220	79,220
Restricted for Sewer	-	(15,868)	(15,868)
Unrestricted and Undesignated	138,271	-	138,271
<b>TOTAL NET ASSETS</b>	<b>\$ 249,289</b>	<b>\$ 1,080,409</b>	<b>\$ 1,329,698</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

## STATEMENT OF ACTIVITIES

*FISCAL YEAR ENDED JUNE 30, 2008*

Functions/Programs	<u>Expenses</u>	Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants
Primary Government -				
General government	\$ 122,696	\$ -	\$ -	\$ -
Legislative	11,549			
Public safety	10,021			
Public works	45,291	54,653		
Streets and Highways	67,153		63,524	
Street Lighting	5,740			
Sanitation and health	8,270	9,736		
Culture and recreation	1,740			
Other Expenditures	2,953			
Interest on Long-Term Debt	77			
Intergovernmental		-	-	-
Depreciation (Unallocated)	9,439			
Total Governmental Activities	\$ 284,929	\$ 64,389	\$ 63,524	\$ -
<u>Business-type Activities</u>				
Water	64,053	66,417	-	-
Sewer	46,848	75,984	-	169,945
Total Business-type Activities	110,901	142,401	-	169,945
<b>Total Primary Government</b>	<b>\$ 395,830</b>	<b>\$ 206,790</b>	<b>\$ 63,524</b>	<b>\$ 169,945</b>

**General Revenues:**

Taxes:

    Property taxes levied for general operations

    Other

    Penalties and Interest on Taxes

State Sales Tax Distribution

Gain on sale of equipment

Interest and Investment Earnings

Other

**Total General Revenues**

**Change in Net Assets**

**NET ASSETS-BEGINNING OF YEAR**

**NET ASSETS-END OF YEAR**

<b>CITY OF GAASTRA</b>
------------------------

## STATEMENT OF ACTIVITIES

*FISCAL YEAR ENDED JUNE 30, 2008*

### Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (122,696)	\$ -	\$ (122,696)
(11,549)		(11,549)
(10,021)		(10,021)
9,362		9,362
(3,629)		(3,629)
(5,740)		(5,740)
1,466		1,466
(1,740)		(1,740)
(2,953)		(2,953)
(77)		(77)
-	-	-
<u>(9,439)</u>		<u>(9,439)</u>
\$ (157,016)	\$ -	\$ (157,016)
-	2,364	2,364
<u>-</u>	<u>199,081</u>	<u>199,081</u>
-	201,445	201,445
<b>\$ (157,016)</b>	<b>\$ 201,445</b>	<b>\$ 44,429</b>
65,542		65,542
-		-
694		694
47,464		47,464
-		-
3,768	1,080	4,848
<u>56,160</u>	<u>438</u>	<u>56,598</u>
<b><u>173,628</u></b>	<b><u>1,518</u></b>	<b><u>175,146</u></b>
16,612	202,963	219,575
232,677	877,446	1,110,123
<b><u>\$ 249,289</u></b>	<b><u>\$ 1,080,409</u></b>	<b><u>\$ 1,329,698</u></b>

The notes to the financial statements are an integral part of this report.



<b>CITY OF GAASTRA</b>
------------------------

**BALANCE SHEET - GOVERNMENTAL FUNDS**

*JUNE 30, 2008*

	<b>General Fund</b>	<b>Major Street Fund</b>
	<hr/>	<hr/>
<b><u>ASSETS</u></b>		
Cash and Investments (Note C )	\$ 104,416	\$ 6,812
Receivables:		
Taxes	5,146	-
Due from Other Funds	28,234	254
Due from Other Governmental Units	6,370	7,499
	<hr/>	<hr/>
<b>Total Assets</b>	<b><u><u>\$ 144,166</u></u></b>	<b><u><u>\$ 14,565</u></u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
<b><u>Liabilities</u></b>		
Accounts Payable	787	4,246
Due to Other Funds	254	238
	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>1,041</b>	<b>4,484</b>
<b><u>Fund Balances</u></b>		
Reserved for Streets & Highways	-	10,081
Reserved for Debt Service	-	-
Unreserved and undesignated	143,125	
	<hr/>	<hr/>
<b>Total Fund Balances</b>	<b>143,125</b>	<b>10,081</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u><u>\$ 144,166</u></u></b>	<b><u><u>\$ 14,565</u></u></b>

<b>CITY OF GAASTRA</b>
------------------------

**BALANCE SHEET - GOVERNMENTAL FUNDS**

*JUNE 30, 2008*

Nonmajor Governmental Funds	Total Governmental Funds
<u>          </u>	<u>          </u>
\$      6,486	\$    117,714
	5,146
238	28,726
2,060	15,929
<u>          </u>	<u>          </u>
<b>\$      8,784</b>	<b>\$    167,515</b>
<u>          </u>	<u>          </u>
2,119	7,152
3,035	3,527
-	-
<u>          </u>	<u>          </u>
<b>5,154</b>	<b>10,679</b>
3,630	13,711
-	-
-	143,125
<u>          </u>	<u>          </u>
3,630	156,836
<b>\$      8,784</b>	<b>\$    167,515</b>
<u>          </u>	<u>          </u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**GOVERNMENTAL FUNDS**

**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS**

*JUNE 30, 2008*

<b>Fund Balances - Total Governmental Funds</b>	<b>\$ 156,836</b>
---	-------------------

Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities  
are not financial resources and are not  
reported in the funds.

The cost of capital assets is:	645,076
Accumulated depreciation is:	(547,769)

Long term liabilities are not due and payable  
in the current period and are not reported  
in the funds:

Notes and Loans Payable	
Compensated Absences	(4,854)

Other long term assets not available to pay  
current period expenditures therefore  
deferred in the funds

-

<b>Total Net Assets - Governmental Activities</b>	<b><u>\$ 249,289</u></b>
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**CITY OF GAASTRA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
- GOVERNMENTAL FUNDS**

*YEAR ENDED JUNE 30, 2008*

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>REVENUE</u></b>				
General Property taxes	\$ 65,542	\$ -	\$ -	\$ 65,542
Other local taxes/fees	694	-	-	694
Use of money and property	58,691	54	26	58,771
Sale of garbage bags	9,736	-	-	9,736
Sale of land	51,105	-	-	51,105
Sale of equipment	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous	4,705	-	-	4,705
Intergovernmental	47,464	50,076	13,448	110,988
<b>TOTAL REVENUE</b>	<b>\$ 237,937</b>	<b>\$ 50,130</b>	<b>\$ 13,474</b>	<b>\$ 301,541</b>
<b><u>EXPENDITURES</u></b>				
Current Operating:				
General government	117,842	-	-	117,842
Legislative	11,549	-	-	11,549
Public safety	10,021	-	-	10,021
Public works	45,291	-	-	45,291
Streets and Highways	-	47,871	19,282	67,153
Street Lighting	5,740	-	-	5,740
Sanitation and Health	8,270	-	-	8,270
Culture and recreation	1,740	-	-	1,740
Capital Outlay	-	-	-	-
Debt Service				
Principal	-	-	4,706	4,706
Interest	-	-	77	77
Other Expenditures	2,953	-	-	2,953
<b>TOTAL EXPENDITURES</b>	<b>\$ 203,406</b>	<b>\$ 47,871</b>	<b>\$ 24,065</b>	<b>\$ 275,342</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>34,531</b>	<b>2,259</b>	<b>(10,591)</b>	<b>26,199</b>
<b>Other Financing Sources (Uses)</b>				
Loan proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(4,783)	(1,971)	6,754	-
<b>Total Other Financing Sources(Uses)</b>	<b>(4,783)</b>	<b>(1,971)</b>	<b>6,754</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>29,748</b>	<b>288</b>	<b>(3,837)</b>	<b>26,199</b>
<b>FUND BALANCE-BEGINNING OF YEAR</b>	<b>113,377</b>	<b>9,793</b>	<b>7,467</b>	<b>130,637</b>
<b>FUND BALANCE-END OF YEAR</b>	<b>\$ 143,125</b>	<b>\$ 10,081</b>	<b>\$ 3,630</b>	<b>\$ 156,836</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**GOVERNMENTAL FUNDS****RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES***YEAR ENDED JUNE 30, 2008*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 26,199</b>
---	------------------

Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlays as expenditures; in  
the statement of activities, these costs are allocated over their  
estimated useful lives as depreciation.

Depreciation Expense

(9,439)

Capital Outlay

-

Revenue reported in the statement of activities that does not provide  
current financial resources and are not reported as revenue  
in the governmental funds

-

Loan proceeds are reported as revenue in the fund statements,  
but not in the statement of activities (where it increases  
long-term debt.)

-

Repayment of loan principal is an expenditure in the governmental  
funds, but not in the statement of activities (where it reduces  
long term debt)

4,706

Increase in accrued benefits

(4,854)

**Change in Net Assets of Governmental Activities**

**\$ 16,612**

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS**

*JUNE 30, 2008*

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
<b><u>ASSETS</u></b>			
<b><i>Current Assets</i></b>			
Cash, unrestricted	\$ 28,251	\$ 3,019	\$ 31,270
Accounts Receivable	2,370	4,794	7,164
Grants Receivable	-	-	-
Due from other funds	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total Current Assets</b>	30,621	7,813	38,434
<b><i>Noncurrent Assets</i></b>			
Restricted cash	50,774	-	50,774
Capital assets:			
Construction in Progress	-	-	-
Buildings	44,163	-	44,163
Equipment	330,034	-	330,034
Infrastructure	1,217,553	482,194	1,699,747
Less:			
Allowance for depreciation	(505,418)	(67,469)	(572,887)
	<hr/>	<hr/>	<hr/>
Total capital assets, net	1,086,332	414,725	1,501,057
<b>Total Noncurrent Assets</b>	1,137,106	414,725	1,551,831
<b>TOTAL ASSETS</b>	<b>\$ 1,167,727</b>	<b>\$ 422,538</b>	<b>\$ 1,590,265</b>
<b><u>LIABILITIES</u></b>			
<b><i>Current Liabilities</i></b>			
Accounts payable	675	-	675
Internal balances	1,500	23,681	25,181
Current portion of long-term debt	14,000	-	14,000
Deferred revenues	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total Current Liabilities</b>	16,175	23,681	39,856
<b><i>Non-current Liabilities</i></b>			
Revenue bonds payable	470,000	-	470,000
	<hr/>	<hr/>	<hr/>
<b>Total Non-current Liabilities</b>	470,000	-	470,000
<b>TOTAL LIABILITIES</b>	<b>\$ 486,175</b>	<b>\$ 23,681</b>	<b>\$ 509,856</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	602,332	414,725	1,017,057
Reserved	79,220	(15,868)	63,352
Unreserved, undesignated	-	-	-
	<hr/>	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<b>\$ 681,552</b>	<b>\$ 398,857</b>	<b>\$ 1,080,409</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
ENTERPRISE FUNDS**

*YEAR ENDED JUNE 30, 2008*

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL ENTERPRISE FUNDS</u>
<b><u>OPERATING REVENUES</u></b>			
Charges for Services	\$ 66,417	\$ 75,984	\$ 142,401
Miscellaneous	<u>438</u>	<u>          </u>	<u>438</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 66,855</b>	<b>\$ 75,984</b>	<b>\$ 142,839</b>
 <b><u>OPERATING EXPENSES</u></b>			
Personal Services and Benefits	1,048	-	1,048
Contractual Services	-	29,719	29,719
Repairs and Maintenance	977	-	977
Other Supplies and Expenses	29,407	11,868	41,275
Depreciation	<u>18,732</u>	<u>5,261</u>	<u>23,993</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 50,164</b>	<b>\$ 46,848</b>	<b>\$ 97,012</b>
 <b>OPERATING INCOME (LOSS)</b>	<b>16,691</b>	<b>29,136</b>	<b>45,827</b>
 <b><u>Non-Operating Revenues (Expenses)</u></b>			
Interest and Investment Revenue	1,068	12	1,080
Insurance Proceeds	-	-	-
Federal Grant	-	169,945	169,945
Interest Expense	<u>(13,889)</u>	<u>          </u>	<u>(13,889)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(12,821)</b>	<b>169,957</b>	<b>157,136</b>
 <b>Change in Net Assets</b>	<b>3,870</b>	<b>199,093</b>	<b>202,963</b>
 <b>NET ASSETS - BEGINNING OF YEAR</b>	<u>677,682</u>	<u>199,764</u>	<u>877,446</u>
 <b>NET ASSETS - END OF YEAR</b>	<u><b>\$ 681,552</b></u>	<u><b>\$ 398,857</b></u>	<u><b>\$ 1,080,409</b></u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS**

*FISCAL YEAR ENDED JUNE 30, 2008*

CASH FLOWS FROM (USED BY)	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<b><u>OPERATING ACTIVITIES</u></b>			
Net cash received from fees and services	\$ 67,170	\$ 76,591	\$ 143,761
Other operating revenues	438		438
Cash payments to employees for services	(1,048)		(1,048)
Cash payments for goods and services	(29,709)	(112,107)	(141,816)
Other operating expenses	-	-	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 36,851</b>	<b>\$ (35,516)</b>	<b>\$ 1,335</b>
<b><u>NON CAPITAL AND FINANCING ACTIVITIES</u></b>			
Increase (decrease) in due to other funds	(338)	19,846	19,508
(Increase) decrease in due from other funds	-	-	-
Net operating transfers in (out)	-	-	-
<b>NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES</b>	<b>(338)</b>	<b>19,846</b>	<b>19,508</b>
<b><u>CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Acquisition and construction of capital assets	-	(220,387)	(220,387)
Principal payment on long-term bonds	(8,000)	-	(8,000)
Interest paid on long-term bonds	(13,889)	-	(13,889)
Interest and tax expense	-	-	-
Proceeds from borrowings	-	-	-
Contributed capital grants	-	236,503	236,503
Insurance Proceeds	-	-	-
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (21,889)</b>	<b>\$ 16,116</b>	<b>\$ (5,773)</b>
<b><u>INVESTING ACTIVITIES</u></b>			
Interest Income	1,068	12	1,080
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>1,068</b>	<b>12</b>	<b>1,080</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>15,692</b>	<b>458</b>	<b>16,150</b>
Cash and Cash Equivalents, Beginning of Year	63,333	2,561	65,894
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 79,025</b>	<b>\$ 3,019</b>	<b>\$ 82,044</b>

The notes to the financial statements are an integral part of this report.



<b>CITY OF GAASTRA</b>
------------------------

**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Operating Income (Loss)	\$ 16,691	\$ 29,136	\$ 45,827
Adjustment to reconcile operating income to net cash provided by operating activities:			
. Depreciation	18,732	5,261	23,993
. Provision for uncollectible accounts	-	-	-
. Changes in assets and liabilities :			-
(Increase) Decrease in accounts receivable	753	607	1,360
Increase (Decrease) in accounts payable	675	(70,520)	(69,845)
Increase (Decrease) in deferred revenue	-	-	-
Increase (Decrease) in customer deposits	-	-	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u><u>\$ 36,851</u></u>	<u><u>\$ (35,516)</u></u>	<u><u>\$ 1,335</u></u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**FIDUCIARY FUND****STATEMENT OF FIDUCIARY NET ASSETS***JUNE 30, 2008 and 2007*

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Cash and Cash Equivalents	<u>\$ 18</u>	<u>\$ 36</u>
<b>TOTAL ASSETS</b>	<u><b>18</b></u>	<u><b>36</b></u>
<b><u>LIABILITIES</u></b>		
Due to Other Funds	18	36
Due to Other Governmental Units	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b>18</b>	<b>36</b>
<b>NET ASSETS</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>

The notes to the financial statements are an integral part of this report.

## **NOTES TO THE FINANCIAL STATEMENTS**

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting methods and procedures adopted by the **City of Gaastra**, Gaastra, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

**THE FINANCIAL REPORTING ENTITY**

The City was organized in 1949 and covers an area of 2 square miles. The City operates under an elected board of five (5) commissioners and provides services to its approximately 376 residents in many areas including law enforcement, general administration and water and sewer services. In accordance with the provisions of GASB 14, certain other governmental organizations are not considered to be part of the City entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include separation of electing governing body and legal status, and fiscal independence.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**THE FINANCIAL REPORTING ENTITY**  
**(Continued)**

On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the City.

**BLENDED COMPONENT UNITS**

A blended component unit is a legally separate entity from the local unit, but is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BLENDED COMPONENT UNITS (Continued)**

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

There are no blended component units to be included in the financial statements of the **City of Gaastra**.

**JOINT VENTURES**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINT VENTURES (Continued)**

An ongoing financial responsibility is defined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

**West Iron County Sewer Authority**

The **City of Gaastra** has entered into an agreement with several governmental entities in Iron County to form the *West Iron County Sewer Authority*.

The Authority was established in August 1972 under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, and was organized to provide sewer service to the cities of Iron River, Stambaugh, Caspian, Gaastra, and a portion of Iron River Township.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINT VENTURES (Continued)**

**West Iron County Sewer Authority (Continued)**

The first grant applications were filed in 1982. Two members from each participating municipality are appointed by their respective governmental entities to serve on the Board of Trustees of the *West Iron County Sewer Authority*.

Pursuant to the terms of the Authority's Sewer Use Ordinance adopted by the Authority and each Constituent Municipality, the Authority bills each Constituent Municipality monthly based on such Constituent Municipality's percentage of Equal Dwelling Units ("EDUs") to the total number of EDUs for the entire System. Billing to end users is done by each Constituent Municipality using its own billing system and methodology.

Under the EDU system, the Authority adopts a preliminary budget in April of each year for its next fiscal year beginning the following July 01.



<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINT VENTURES (Continued)**

**West Iron County Sewer Authority (Continued)**

This preliminary budget is presented to each Constituent Municipality for review and consideration in its budgeting process.

Prior to adopting its final budget in June of each year for the fiscal year beginning the following July 01, the Authority holds a public hearing with respect to the preliminary budget.

The preliminary and final budgets calculate EDU charges to cover both operation, maintenance, and replacement ("OMR") expenses and debt retirement expenses.

Included in OMR charges are funds for future replacements of all major plant equipment. During the fiscal year ended June 30, 2008, the **City of Gaastra** paid to the Authority fees totaling \$ 29,719 for OMR and debt retirement.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINT VENTURES (Continued)**  
**West Iron County Sewer Authority (Continued)**

Financial statements for the West Iron County Sewer Authority can be requested by writing to:

West Iron County Sewer Authority  
P.O. Box 246  
Caspian, MI 49915

**JOINTLY GOVERNED ORGANIZATIONS**

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Caspian-Gaastra Fire Authority**

The **Caspian-Gaastra Fire Authority** was formed to organize, equip, and manage a fire department to provide fire protection for the land areas within the boundaries of the Cities of Caspian and Gaastra. The **Caspian-Gaastra Fire Authority** was formed on February 01, 2002, and, as provided by statute, operates under a Governing Board which consists of 2 members appointed by the governing body of each representative municipality, plus one additional member selected by the Board who shall be a resident of a participating municipality.

The Authority is funded by assessments from the participating municipalities. During the fiscal year ended June 30, 2008, the City paid an assessment of \$ 6,267 to the Authority for fire protection.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Caspian-Gaastra Fire Authority (Continued)**

Financial statements are available by writing to:

Caspian-Gaastra Fire Authority  
P.O. Box 350  
Caspian, MI 49915

**Stambaugh Cemetery Association**

The *Stambaugh Cemetery Association* was established by the Cities of Caspian, Gaastra, and Stambaugh, and the Township of Stambaugh on February 17, 1975. The term of duration was designated to be thirty (30) years.

The City of Stambaugh terminated its participation in the Stambaugh Cemetery Association effective June 30, 2000 in conjunction with the consolidation of three municipalities - the Cities of Iron River and Stambaugh and the Village of Mineral Hills.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Stambaugh Cemetery Association (Continued)**

The purpose of the Association is to acquire, own, improve, enlarge, extend, and operate a cemetery system for residents of the Constituent Municipalities.

The Association operates under a Board of Directors, consisting of two (2) persons appointed by each of the Constituent Municipalities' controlling Boards, and is funded by assessments to each of its participating municipalities.

Financial statements can be obtained by request to:

Stambaugh Cemetery Association  
P.O. Box 218  
Gaastra, MI 49927

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Stambaugh Cemetery Association (Continued)**

During the fiscal year ended June 30, 2008, the assessment paid to the Cemetery Association by the City was \$ 2,712.

**RELATED ORGANIZATIONS**

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

There are no related organizations to the **City of Gaastra** as defined above.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION**

The City follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

***Management's Discussion and Analysis***

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

***Government-wide financial statements***

These include financial statements prepared using full accrual accounting for all of the government's activities.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

***Government-wide financial statements (Continued)***

This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

***Statement of Net Assets***

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units.



<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

***Statement of Net Assets (Continued)***

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) reserved; and 3) unreserved.

***Statement of Program Activities***

The statement of activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

***Budgetary comparison schedules***

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements.

The reporting model focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category).

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

The criteria applied for major fund qualification is as follows:

- 1) Total assets, liabilities, revenues, or expenditures/expenses (excluding extraordinary items) of an individual fund are at least 10% of the corresponding total for a fund type.
- 2) Total assets, liabilities, revenues, or expenditures/expenses (excluding extraordinary items) of an individual fund are at least 5% of the corresponding total for the total of all governmental and enterprise funds combined.

Assets, or any other elements taken one a time would have to pass both the 10% test and the 5% test for the fund to be required to be considered a major fund.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both governmental-wide and fund financial statements presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

In the fund financial statements, financial transactions and accounts of the City are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)**

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.



<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

The following is a brief description of the specific funds used by the City:

**GOVERNMENTAL FUNDS**

These funds are those through which most governmental functions typically are financed.

The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities, except those accounted for in the Proprietary Fund, are accounted for through the Governmental Funds. These funds are as follows:

**General Fund**

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENTAL FUNDS (Continued)**

**General Fund (Continued)**

Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

The General Fund is always considered to be a major fund for reporting purposes.

**Special Revenue Funds**

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The City's *Major & Local Street Funds* are *Special Revenue Funds*. The *Major Street Fund* is considered a major fund for reporting purposes.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENTAL FUNDS (Continued)**

**Debt Service Fund**

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Capital Projects Fund**

These funds are used to account for the purchase and/or construction of capital facilities by a governmental unit which are not accounted for by Proprietary Funds, Special Assessment Funds, or Trust Funds.

Currently, the **City of Gaastra** does not require a Capital Projects Fund.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**PROPRIETARY FUNDS**

**Enterprise Funds**

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose. The *Water Fund* and *Sewer Funds* are *Proprietary Funds*.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**FIDUCIARY FUNDS**

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

The City's *Current Tax Collection Fund* is a *Fiduciary Fund*. Agency funds are custodial in nature and do not involve measurement of results of operations.

**MEASUREMENT FOCUS**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**MEASUREMENT FOCUS (Continued)**

With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide Statement of Net Assets and Statement of Activities, all proprietary funds, and private-purpose trust funds and pension trust funds (when applicable) are accounted for on a flow of economic resources measurement focus.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**MEASUREMENT FOCUS (Continued)**

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the Statement of Net Assets or on the Statement of Fiduciary Net Assets. Proprietary fund-type operating statements present increase (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Statement of Net Assets, Statement of Activities, financial statements of Proprietary Fund and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**MEASUREMENT FOCUS (Continued)**

The fund financial statements of the General, Special Revenue, Debt Service, and Capital Projects funds are maintained and reported on (when applicable) the modified basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term “available” is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.



<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**MEASUREMENT FOCUS (Continued)**

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**ENCUMBRANCES**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**ENCUMBRANCES**

It is the City's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

**CASH AND CASH EQUIVALENTS**

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The City classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**INVENTORIES**

Inventories of supplies are expended as received.

**RECEIVABLES**

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General and Special Revenue Funds. User charges for the Proprietary Funds are recorded as receivable when billed. On an annual basis the charges are reviewed for collectibility. Those deemed uncollectible are assigned to the tax roll.

**INTEREST RECEIVABLE**

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**DUE TO/FROM OTHER FUNDS**

Transactions between funds that had not been paid or received as of fiscal year end have been recorded as inter-fund accounts receivable and payable in the financial statements. These inter-fund receivables and payables do not represent Board-approved loans between funds.

**DEFERRED REVENUE**

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

At June 30, 2008, the City had no deferred revenue.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**FUND EQUITY**

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes. Designated fund balances represent amounts earmarked by the City for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the City for future expenditures.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BUDGETS AND BUDGETARY ACCOUNTING**

The City follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30 of the preceding fiscal year, the City prepares a budget for the next fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BUDGETS AND BUDGETARY ACCOUNTING**  
**(Continued)**

2. A meeting of the City Council is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.
3. Prior to July 01, the budget is legally enacted through passage of a resolution by the members of the City Council.

Once the budget is approved, it can be amended at the Fund and Function level only by approval of a majority of the members of the City Council. Amendments are presented to the Council at their regular meetings. Each amendment must have Council approval.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**PROPERTY TAXES**

The City's property taxes are levied and become a lien on each July 01<sup>st</sup> based on the taxable valuation of property located in the City as of the preceding December 31<sup>st</sup>.

These taxes are due on February 14<sup>th</sup> before they are added to the county delinquent tax rolls on March 01. The County of Iron purchases from the City delinquent real property taxes outstanding as of March 31<sup>st</sup> of each year.

Although the City ad valorem tax is levied and collectible on July 01<sup>st</sup>, it is the City's policy to recognize revenue from the current tax levy in the fiscal year for which they have been levied and become available. The 2007 taxable valuation of the City totaled \$ 3,493,630 on which ad valorem taxes levied consisted of 18.7607 mills for the City operating purposes.



<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**NON-MONETARY TRANSACTIONS**

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

**CAPITAL ASSETS**

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the governmental-wide statements to the extent the City's capitalization threshold of \$ 1,000 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

**Buildings..... 20 – 30 years**

**Infrastructure..... 10 – 65 years**

**Furniture and Other**

**Equipment..... 5 – 20 years**

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**CAPITAL ASSETS (Continued)**

To the extent the City's capitalization threshold of \$1,000 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the governmental-wide basis using the straight-line method and the following estimated useful lives:

**Land Improvements..... 20 years**

**Equipment..... 5 – 20 years**

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**CAPITAL ASSETS (Continued)**

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

**COMPENSATED ABSENCES**

***Sick Leave***

Full time City employees are granted sick leave under Ordinance 21-B at the rate of one half day per every 173 hours worked. Sick leave can be accumulated up to a maximum of 18 days.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**COMPENSATED ABSENCES (Continued)**

***Sick Leave (Continued)***

An employee who quits, is discharged, or retires forfeits all rights to draw sick leave pay.

At June 30, 2008, the City's liability for accrued sick leave, plus the related costs of FICA and Medicare, was \$6,340.

***Vacation***

Ordinance 21-A grants vacation benefits to full-time employees with one year or more of continuous service who have received earnings in at least 50% of the pay periods in the preceding calendar year, and have not been absent from work for six consecutive months or more in the preceding calendar year. An employee forfeits the right to receive vacation benefits if he/she quits or is discharged prior to January 01 of the vacation year.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**COMPENSATED ABSENCES (Continued)**

***Vacation (Continued)***

On June 30, 2008, the City's potential liability for accrued vacation, plus the related costs of FICA and Medicare, was \$ 4,954.

GASB 16 establishes standards of accounting and reporting for compensated absences, and requires recognition of the liability in the financial statements if the employees' right to receive compensation is based on past service, and it is probable that the employee will receive the accrued benefit at separation. Since employees forfeit all rights to sick leave payment at termination, the City does not report this liability for such leave benefits on the financial statements. However, since unused vacation time can be paid out at retirement, this liability is reflected on the City's financial statements at June 30<sup>th</sup>.

**POST EMPLOYEE BENEFITS**

The **City of Gaastra** provides no post-employment benefits other than MERS pension.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B – INTER-FUND ACTIVITIES**

**INTER-FUND RECEIVABLES AND PAYABLES**

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE B – INTER-FUND ACTIVITIES (CONTINUED)**

**INTER-FUND RECEIVABLES AND PAYABLES  
(Continued)**

The amounts of the inter-fund receivables and payables as of  
June 30, 2008 were as follows:

<b><u>Fund</u></b>	<b><u>Inter-fund Receivable</u></b>	<b><u>Inter-fund Payable</u></b>
General	\$ 28234	\$ 254
Trust and Agency	-0-	18
Local Street Fund	238	3035
Major Street Fund	254	238
Water Fund	-0-	1500
Sewer Fund	<u>-0-</u>	<u>23681</u>
<b>Total</b>	<b>\$ <u>28726</u></b>	<b>\$ <u>28726</u></b>

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE B – INTER-FUND ACTIVITIES (CONTINUED)**

**INTER-FUND RECEIVABLES AND PAYABLES**  
**(Continued)**

<b><u>Summary by Fund Classification</u></b>	<b><u>Inter-fund Receivable</u></b>	<b><u>Inter-fund Payable</u></b>
Major Funds – Governmental	\$ 28488	\$ 492
Non-major Funds – Governmental	238	3035
Enterprise Funds	-0-	25181
Fiduciary Fund	<u>-0-</u>	<u>18</u>
<b>Total</b>	<b>\$ <u>28726</u></b>	<b>\$ <u>28726</u></b>

The General Fund is reimbursed for salaries, benefits, and other expenditures from the Major and Local Street Funds, the Water Fund, and the Sewer Fund. These balances clear the following month.



<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE B – INTER-FUND ACTIVITIES (CONTINUED)**

**OPERATING TRANSFERS**

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the fiscal year ended June 30, 2008, the City authorized the following transfers:

<b><u>Fund</u></b>	<b><u>Transfer In</u></b>	<b><u>Transfer Out</u></b>
Debt Service Fund	\$ 4783	\$ -0-
General Fund	-0-	4783
Major Street Fund	-0-	1971
Local Street Fund	<u>1971</u>	<u>-0-</u>
<b>Total</b>	<b>\$ <u><u>6754</u></u></b>	<b>\$ <u><u>6754</u></u></b>

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE B – INTER-FUND ACTIVITIES (CONTINUED)**

**OPERATING TRANSFERS (Continued)**

<b><u>Summary by Fund Classification</u></b>	<b><u>Transfer In</u></b>	<b><u>Transfer Out</u></b>
Major Funds – Governmental	\$ -0-	\$ 6754
Non-major Funds – Governmental	<u>6754</u>	<u>-0-</u>
<b>Total</b>	<b>\$ <u>6754</u></b>	<b>\$ <u>6754</u></b>

The General Fund transfers to the Debt Service Fund to provide monies for payment of principal and interest on notes/loans not provided for by Debt Service millage.

The Major Street Fund transferred a portion of its Act 51 funding, as allowed by statute, to supplement the needs of the Local Street Fund.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE B – INTER-FUND ACTIVITIES (CONTINUED)**

**OTHER FINANCING SOURCES (USES)**

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS**

**CASH RESERVES**

The bonding ordinances for the 2000 and 2001 Water Supply System Junior Lien Revenue bonds require certain cash balances be reserved for bond repayment.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS**

**CASH RESERVES (Continued)**

***Junior Lien Bond and Interest Redemption Fund***

Each quarter of the fiscal year, revenues must be transferred to the Bond and Interest Redemption Fund before any other expenditures or transfers. Sufficient amounts must be set aside to pay for the principal and interest payments accruing on the bonds.

As of June 20, 2008, the City is required to have \$ 8,111 in the Bond and Interest Redemption Fund. The actual balance on June 30, 2008 is \$ 10,369.

***Junior Lien Bond Reserve Account***

Ordinances #44 and #45 state that a reserve account for Bond and Interest Redemption is to be funded in the amount of \$ 441 per quarter, until there is accumulated the sum of \$ 17,640. No further deposits need be made thereafter.

Monies in the reserve account shall be used solely for payment of principal installments and interest on the bonds as to which there would otherwise be default.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS**

**CASH RESERVES (Continued)**

***Junior Lien Bond Reserve Account (Continued)***

On June 30, 2008, the City is required to have \$ 14,715 on deposit in the Bond Reserve Account. The actual balance on June 30, 2008 is \$ 15,088.

***Repair, Replacement, and Improvement Fund***

The bonding ordinance requires the establishment of a Repair, Replacement, and Improvement Fund to be used for the purpose of paying the cost of (a) repairing any damage to and emergency maintenance of the System, (b) repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the System, (c) acquiring and constructing extensions and improvements to the System, and, when necessary, for the purpose of making payments of principal and interest on the Junior Lien Bonds.

If the amount in the Bond and Interest Redemption Fund and the Bond Reserve Account is not sufficient to pay the principal and interest on the Bonds when due, the monies in the RRI Fund shall be transferred to the Bond and Interest Redemption Fund and used for that purpose.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)**

**CASH RESERVES (Continued)**

***Repair, Replacement, and Improvement Fund*  
(Continued)**

Beginning October 1, 2000, the City was required to deposit into the RRI Fund an annual amount not less than \$875 less the amount, if any, deposited in the Bond Reserve Account at the beginning of the same Fiscal Year month. This amount was increased to \$ 991 beginning April 1, 2002.

On June 30, 2008, required deposits in the Repair, Replacement, and Improvement Fund are \$ 16,525. Actual deposits in the Repair, Replacement, and Improvement Fund are \$ 15,963.

The City was made aware of the shortfall, and has corrected the deficiency.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)**

**CASH AND DEPOSITS**

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

These three levels of risk are as follows:

**Category 1**

Deposits which are insured or collateralized with securities held by the City or its agent in the City's name.

**Category 2**

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)**

**CASH AND DEPOSITS (Continued)**

**Category 3**

Deposits which are not collateralized or insured.

Based on these levels of risk, the City's cash deposits are classified as follows:

	<b><u>Category 1</u></b>	<b><u>Category 2</u></b>	<b><u>Category 3</u></b>	<b><u>Totals</u></b>
<b>Cash and Deposits</b>	\$ 175461	\$ -0-	\$ 24315	\$ 199776

**INVESTMENTS**

The City's investments are categorized below to give an indication of the level of risk assumed at year-end.



<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)**

**INVESTMENTS (Continued)**

**Category 1** includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the City's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the City's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
None	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
<b>Total Investments</b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>-0-</u></b>

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)**

**STATUTORY AUTHORITY**

Act 196, PA 1997, authorizes the City to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)**

**STATUTORY AUTHORITY (Continued)**

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptance of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles which are legal for direct investment by a public corporation.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)**

**STATUTORY AUTHORITY (Continued)**

The City has adopted an investment policy, allowing for all types of deposits and investments listed above. The City's deposits and investments are in compliance with its investment policy.

**PRIMARY GOVERNMENT**

On June 30, 2008, the carrying value of the City's deposits (Primary Government) was \$ 199,776 and is comprised of cash and deposits reflected in the following funds:

<b><u>Governmental Funds</u></b>	
General Fund	\$ 104416
Major Street Fund	6812
Local Street Fund	<u>6486</u>
<b>Total Governmental Funds</b>	<b>\$ 117714</b>

(Continued on page 93)

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)**

**PRIMARY GOVERNMENT (Continued)**

(Continued from previous page)

**Enterprise Funds**

Water Fund	\$	79025
Sewer Fund		<u>3019</u>

<b><i>Total Enterprise Funds</i></b>	<b>\$</b>	<b>82044</b>
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**Fiduciary Funds**

Tax Collection Fund		<u>18</u>
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<b><i>Total Fiduciary Funds</i></b>	<b>\$</b>	<b>18</b>
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<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$</b>	<b><u>199776</u></b>
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<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE D – PENSION PLAN**

**DESCRIPTION OF PLAN AND PLAN ASSETS**

The **City of Gaastra** is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS).

The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries.

The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2007.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE D – PENSION PLAN (CONTINUED)**

**DESCRIPTION OF PLAN AND PLAN ASSETS**  
**(Continued)**

MERS was organized pursuant to Section 12a of Act#156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to:

MERS  
447 North Canal Street  
Lansing, Michigan 48917-9755

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE D – PENSION PLAN (CONTINUED)**

**FUNDING POLICY**

The obligation to contribute to and maintain the system for these employees was established by the **City of Gaastra**'s personnel policy, which does not require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate; the current rate was 8.65 percent at December 31, 2007.

During the fiscal year ended June 30, 2008, the City's contributions totaling \$ 8,011 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2007. The employer contribution rate has been determined based on the entry age normal funding method.



<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE D – PENSION PLAN (CONTINUED)**

**ANNUAL PENSION COST (Continued)**

Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on age-related scale to reflect merit, longevity, and promotional salary increases.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE D – PENSION PLAN (CONTINUED)**

**REQUIRED SUPPLEMENTARY INFORMATION FOR GASB STATEMENT NO. 25**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Under- funded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percent of Covered Payroll</b>
12/31/03	\$ 54075	\$ 93172	\$ 39097	58%	\$ 56714	69%
12/31/04	63628	102747	39119	62%	59155	66%
12/31/05	73508	111417	37909	66%	59658	64%
12/31/06	85197	122703	37506	69%	61303	61%
12/31/07	97747	137542	39795	71%	82348	48%

**GASB 25 AND GASB 27 INFORMATION**

The following information has been prepared to provide the information necessary to comply with GASB Statements 25 and 27.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE D – PENSION PLAN (CONTINUED)**

**GASB 25 AND GASB 27 INFORMATION**

Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1997.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2007 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

**GASB 25 INFORMATION (as of 12/31/06)**

<p><b><u>Actuarial Accrued Liability</u></b></p>
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Retirees and beneficiaries currently receiving benefits	\$	-0-
Terminated employees not yet receiving benefits		-0-

(Continued on page 100)

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE D – PENSION PLAN (CONTINUED)**

**GASB 25 INFORMATION (as of 12/31/07)**

(Continued from previous page)

**Actuarial Accrued Liability**

Current employees -		
Accumulated employee contributions including	\$	
allocated investment income		-0-
Employer Financed		<u>137542</u>
Total Actuarial Accrued Liability		137542
Net Assets Available for Benefits at Actuarial Value		<u>97947</u>
(Market Value is \$ 71,571)		
Unfunded (Over-funded) Actuarial Accrued Liability	\$	39795

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE D – PENSION PLAN (CONTINUED)**

**GASB 27 INFORMATION (as of 12/31/07)**

Fiscal Year Beginning	July 01, 2009
Annual Required Contribution (ARC)	\$ 6588
Amortization Factor Used	0.055889

**NOTE E – EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

**BUDGET VIOLATIONS**

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated. The **City of Gaastra**'s actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the **City of Gaastra** were adopted at the activity level.

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE E – EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS  
(CONTINUED)**

**BUDGET VIOLATIONS (Continued)**

The total actual 2007-2008 expenditures for the following activities (cost centers) exceeded the amended budget allocations by a total of \$ 21,680, contrary to the provisions of Section 17 of Public Act 621 of 1978, the “Uniform Budgeting and Accounting Act”.

<b><u>ACTIVITY (COST CENTER)</u></b>	<b><u>ACTUAL</u></b>	<b><u>BUDGET</u></b>	<b><u>OVER EXPENDITURES</u></b>
<b><u>General Fund</u></b>			
General Government			
City Manager	\$ 31150	\$ 27746	\$ 3404
City Clerk/Treasurer	53899	50685	3214
Transfers to Other Funds	4783	-0-	4783
<b><u>Major Street Fund</u></b>			
Routine Maintenance	27524	23826	3698
Operating Transfers Out	1971	-0-	1971
<b><u>Local Street Fund</u></b>			
Routine Maintenance	<u>11590</u>	<u>6980</u>	<u>4610</u>
<b>Totals</b>	<b>\$ 130917</b>	<b>\$ 109237</b>	<b>\$ 21680</b>

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE F – ACCUMULATED FUND DEFICITS**

At June 30, 2008, the City had no fund balance/retained earnings deficit in any fund.

**NOTE G – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City.

**NOTE H – CAPITAL ASSETS**

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2008:

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE H – CAPITAL ASSETS (CONTINUED)**

**GOVERNMENTAL ACTIVITIES**

	Restated Balance June 30, <u>2007</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2008</u>
<b>Capital Assets Not Being Depreciated</b>	\$	\$	\$	\$
Land and Land Improvements	<u>39313</u>	<u>-0-</u>	<u>-0-</u>	<u>39313</u>
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 39313</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 39313</b>
<b><u>Other Capital Assets</u></b>				
Land Improvements	7418	-0-	-0-	7418
Buildings and Building Improvements	233745	-0-	-0-	233745
Infrastructure	220282	-0-	-0-	220282
Furniture and Other Equipment	<u>144318</u>	<u>-0-</u>	<u>-0-</u>	<u>144318</u>
<b>Total Other Capital Assets</b>	<b>\$ 605763</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 605763</b>
<b><u>Less Accumulated Depreciation for:</u></b>				
Land Improvements	(787)	(371)	-0-	(1158)
Buildings	(204869)	(2967)	-0-	(207836)
Infrastructure	(220282)	-0-	-0-	(220282)
Furniture and Other Equipment	<u>(112392)</u>	<u>(6101)</u>	<u>-0-</u>	<u>(118493)</u>
<b>Total Accumulated Depreciation</b>	<b>(538330)</b>	<b>(9439)</b>	<b>-0-</b>	<b>(547769)</b>
Other Capital Assets, Net	67433	(9439)	-0-	57994
<b>TOTALS</b>	<b>\$ <u>106746</u></b>	<b>\$ <u>(9439)</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>97307</u></b>



<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE H – CAPITAL ASSETS (CONTINUED)**

**GOVERNMENTAL ACTIVITIES (Continued)**

Depreciation was charged to governmental functions as unallocated.

**BUSINESS-TYPE ACTIVITIES**

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended June 30, 2008:

	<b>Restated Balance June 30, 2007</b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b>Balance June 30, 2008</b>
<b><u>BUSINESS-TYPE ACTIVITIES</u></b>				
<b><u>Capital Assets Not Being Depreciated</u></b>				
Land, Easements and	\$	\$	\$	\$
Right of Way	-0-	-0-	-0-	-0-
Construction in Progress	88697	-0-	(88697)	-0-
<b><u>Other Capital Assets:</u></b>				
Land and Improvements	-0-	-0-	-0-	-0-
Buildings	44163	-0-	-0-	44163
Infrastructure	1390662	309085	-0-	1699747
Machinery and Equipment	330034	-0-	-0-	330034
<b>Total Capital Assets</b>	<b>\$ 1853556</b>	<b>\$ 309085</b>	<b>\$ (88697)</b>	<b>\$ 2073944</b>

(Continued on page 106)

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE H - CAPITAL ASSETS (CONTINUED)**

**BUSINESS-TYPE ACTIVITIES (Continued)**

(Continued from previous page)

	<b>Restated Balance June 30, 2007</b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b>Balance June 30, 2008</b>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Buildings	(44163)	-0-	-0-	(44163)
Infrastructure	(174696)	(23993)	-0-	(198689)
Machinery and Equipment	<u>(330035)</u>	<u>0</u>	<u>-0-</u>	<u>(330035)</u>
 <b>Total Accumulated Depreciation</b>	 <u>(548894)</u>	 <u>(23993)</u>	 <u>-0-</u>	 <u>(572887)</u>
 <b>TOTALS</b>	 \$ <u><u>1304662</u></u>	 \$ <u><u>285092</u></u>	 \$ <u><u>(88697)</u></u>	 \$ <u><u>1501057</u></u>

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE I - LONG-TERM DEBT**

The following is a summary of changes of the primary government's long-term debt obligation on June 30, 2008:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>
<b><u>Miners State Bank</u></b>				
# 325100	\$	\$	\$	\$
2006 Chevrolet Pickup	4706	-0-	4706	-0-
<b><u>Business-Type Activities</u></b>				
<b><u>Water Fund</u></b>				
Water Supply System				
Improvement Bonds	160000	-0-	8000	152000
Junior Lien Revenue				
Bond # 91-01	253000	-0-	-0-	253000
Junior Lien Revenue				
Bond # 91-03	79000	-0-	-0-	79000
Accrued Benefits	<u>-0-</u>	<u>4854</u>	<u>-0-</u>	<u>4854</u>
<b>Totals</b>	<b>\$ <u>496706</u></b>	<b>\$ <u>4854</u></b>	<b>\$ <u>12706</u></b>	<b>\$ <u>488854</u></b>

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE I - LONG-TERM DEBT (CONTINUED)**

**NOTE PAYABLE – MINERS STATE BANK 2006  
CHEVROLET PICKUP**

On December 12, 2005, the **City of Gaastra** signed a promissory note in the principal amount of \$ 9,000, bearing interest at the rate of 6.50% for the purchase of a 2006 Chevrolet pickup.

The note was payable in 36 monthly payments of \$ 276.21 beginning January 12, 2006, with all subsequent payments due on the 12<sup>th</sup> day of each month thereafter.

The balance of the note was paid in full during the fiscal year ended June 30, 2008.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE I - LONG-TERM DEBT (CONTINUED)**

**WATER SUPPLY SYSTEM REVENUE BONDS  
(GMAC)**

The City issued revenue bonds for Water Supply System Improvement on May 20, 1982, bearing an interest rate not to exceed 5% per annum. Interest is payable on January 01 and July 01 of each year. The bonds mature serially on July 01 of each year in the following manner:

<u>For Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 9000	\$ 7600	\$ 16600
2010	9000	7150	16150
2011-2015	50000	28700	78700
2016-2020	58000	15350	73350
2021-2023	<u>26000</u>	<u>1950</u>	<u>27950</u>
<b>Totals</b>	<b>\$ <u>152000</u></b>	<b>\$ <u>60750</u></b>	<b>\$ <u>212750</u></b>

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE I - LONG-TERM DEBT (CONTINUED)**

**2000 WATER SUPPLY SYSTEM JUNIOR LIEN  
REVENUE BOND**

On November 28, 2000, the **City of Gaastra** issued a bond consisting of one fully-registered nonconvertible bond of the denomination of \$ 278,000, payable in principal installments serially on July 01 of each year.

Bond proceeds are to be used for the purpose of acquiring and constructing certain additions, renovations, expansions and improvements to the system consisting generally of improvements to the water supply system, together with all necessary interests in land, rights of way and all appurtenances and attachments thereto.

The serial principal installments of the Junior Lien Bonds will each bear interest from the date of delivery of the corresponding delivery installment to the registered holder thereof at the rate of not to exceed three and one-quarter percent (3.25%) per annum, payable on the first January 01 or July 01 following the date of delivery of said delivery installment, and semi-annually thereafter on January 01 and July 01 of each year until maturity or earlier payment of said installment.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE I - LONG-TERM DEBT (CONTINUED)**

**2000 WATER SUPPLY SYSTEM JUNIOR LIEN  
REVENUE BOND (Continued)**

Scheduled payments of principal and interest are as follows:

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$ 4000	\$ 8222	\$ 12222
2010	4000	8093	12093
2011	4000	7962	11962
2012-2016	24000	37667	61667
2017-2021	28000	33540	61540
2022-2026	34000	28665	62665
2027-2031	41000	22588	63588
2032-2036	47000	15567	62567
2037-2041	55000	7443	62443
2042	<u>12000</u>	<u>390</u>	<u>12390</u>
<b>Totals</b>	<b>\$ <u>253000</u></b>	<b>\$ <u>170137</u></b>	<b>\$ <u>423137</u></b>

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE I - LONG-TERM DEBT (CONTINUED)**

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN  
REVENUE BOND**

On July 24, 2001, the **City of Gaastra** issued a bond consisting of one fully-registered, non-convertible bond in the total aggregate principal sum of \$ 85,000, issued pursuant to Ordinance No. 31, as amended, Ordinance No. 44, and Ordinance 45 (together, the "Ordinances"), and under and in full compliance with the Constitution and statutes of the State of Michigan, including specifically Act 94, Public Acts of Michigan, 1933, as amended, for the purpose of acquiring and constructing certain additions, renovations, expansions, and improvements to the system consisting generally of improvements to the water supply system, together with all necessary interests in land, rights of way, and all appurtenances and attachments thereto.



<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE I - LONG-TERM DEBT (CONTINUED)**

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN  
REVENUE BOND (Continued)**

The serial principal installments of the Junior Lien Bonds will each bear interest from the date of delivery of the corresponding delivery installment to the registered holder thereof at the rate of not to exceed four and one-half percent (4.50%) per annum, payable beginning on January 01, 2002, and semiannually thereafter on January 01, and July 01 of each year until maturity or earlier prepayment of said installment.

Scheduled payments of principal and interest are as follows:

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$ 1000	\$ 3595	\$ 4595

(Continued on page 114)

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE I - LONG-TERM DEBT (CONTINUED)**

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN  
REVENUE BOND (Continued)**

(Continued from previous page)

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$ 1000	\$ 3549	\$ 4549
2011	1000	3504	4504
2012-2016	6500	16769	23269
2017-2021	8000	15131	23131
2022-2026	10000	13083	23083
2027-2031	13000	10580	23580
2032-2036	16000	7372	23372
2037-2041	20000	3390	23390
2042	<u>2500</u>	<u>114</u>	<u>2614</u>
<b>Totals</b>	<b>\$ <u>79000</u></b>	<b>\$ <u>77087</u></b>	<b>\$ <u>156087</u></b>

**Accrued Benefits**

Vacation benefits are awarded based on years of service. Although unused vacation time cannot accumulate, current year benefits will be paid out at retirement. At June 30, 2008, the City's payment liability for accrued vacation, plus the related costs of FICA and Medicare, is \$4,954.

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE J - SEGMENT INFORMATION - Enterprise Funds**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$ 66855	\$ 75984	\$ 142839
Depreciation and Amortization Expense	18732	5261	23993
Operating Income (Loss)	16691	29136	45827
Operating Grants, Entitlements, and Shared Revenues	0	0	0
Operating Transfers:			
In	0	0	0
(Out)	0	0	0
Tax Revenues	0	0	0
Net Income or Loss	3870	199093	202963
Current Capital:			
Contributions	0	169945	169945
Transfers	0	0	0

(Continued on page 116)

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE J - SEGMENT INFORMATION - Enterprise Funds**

(Continued from previous page)

	<u><b>Water Fund</b></u>	<u><b>Sewer Fund</b></u>	<u><b>Total Enterprise Funds</b></u>
Property, Plant, and Equipment	\$	\$	\$
Additions	-0-	309085	309085
Deletions	-0-	(88697)	(88697)
Net Working Capital	65220	(15868)	49352
Total Assets	1167727	422538	1590265
Bonds and Other Long-Term Liabilities			
Payable from Operating Revenues	470000	-0-	470000
Payable from Other Sources	-0-	-0-	-0-
 Total Equity	 \$ 681552	 \$ 398857	 \$ 1080409

<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE K - RELATED PARTY TRANSACTIONS**

*Related parties* exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE L - SUBSEQUENT EVENTS**

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended June 30, 2008, there were no subsequent events that would have a significant affect on the City's operations.

**NOTE M - COMMITMENTS AND CONTINGENCIES**

The City participates in state and federal grant programs which are governed by various rules and regulations of the grantor agencies.

<b>CITY OF GAASTRA</b>
------------------------

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2008*

**NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectibility of any related receivable at June 30, 2008 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**REQUIRED SUPPLEMENTAL INFORMATION**



<b>CITY OF GAASTRA</b>
------------------------

**REQUIRED SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

*YEAR ENDED JUNE 30, 2008*

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>
<b><u>REVENUE</u></b>			
General Property Taxes	\$ 59,873	\$ 66,802	\$ 65,542
Other Local Taxes	-	-	-
Penalties and Interest on Taxes	3,450	346	694
Use of Money and Property	67,142	55,911	58,691
Charges for Services	9,000	9,736	9,736
Miscellaneous	1,200	3,734	4,705
Recovered Costs	-	-	-
Intergovernmental	52,254	57,635	47,464
Sale of Assets	4,000	1,965	51,105
	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUE</b>	<b>196,919</b>	<b>196,129</b>	<b>237,937</b>
<b><u>EXPENDITURES</u></b>			
General Government	109,491	122,744	120,795
Legislative	13,554	11,549	11,549
Public Safety	10,073	10,073	10,021
Public Works	55,473	53,059	51,031
Sanitation and Health	8,030	8,270	8,270
Culture and Recreation	300	1,740	1,740
	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENDITURES</b>	<b>196,921</b>	<b>207,435</b>	<b>203,406</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	(8,835)	(4,783)
Transfers to Component Units	-	-	-
	<hr/>	<hr/>	<hr/>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(8,835)</b>	<b>(4,783)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(2)</b>	<b>(20,141)</b>	<b>29,748</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<hr/> <b>113,377</b>	<hr/> <b>113,377</b>	<hr/> <b>113,377</b>
<b>FUND BALANCE - END OF YEAR</b>	<hr/> <b>\$ 113,375</b>	<hr/> <b>\$ 93,236</b>	<hr/> <b>\$ 143,125</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**REQUIRED SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND**

*YEAR ENDED JUNE 30, 2008*

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>
<b><u>REVENUE</u></b>			
State Transportation Funds	\$ 51,772	\$ 45,504	\$ 50,076
Other Revenue	5	51	54
<b>TOTAL REVENUE</b>	<b>51,777</b>	<b>45,555</b>	<b>50,130</b>
<b><u>EXPENDITURES</u></b>			
Administration	2,400	2,200	2,200
Routine Maintenance	24,047	23,826	27,524
Winter Maintenance	25,329	18,147	18,147
Capital Outlay	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>51,776</b>	<b>44,173</b>	<b>47,871</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	1,971
Transfers to Component Units	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>1,971</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1</b>	<b>1,382</b>	<b>288</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>9,793</b>	<b>9,793</b>	<b>9,793</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 9,794</b>	<b>\$ 11,175</b>	<b>\$ 10,081</b>

The notes to the financial statements are an integral part of this report.

## **OTHER SUPPLEMENTAL INFORMATION**

<b>CITY OF GAASTRA</b>
------------------------

**OTHER SUPPLEMENTAL INFORMATION**

**COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**

*JUNE 30, 2008*

	<u>LOCAL STREET FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL</u>
<b><u>ASSETS</u></b>			
Cash and Investments (Note C )	\$ 6,486	\$ -	\$ 6,486
Receivables			
Accounts Receivable - State	2,060	-	2,060
Due from Other Funds	238	-	238
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,784</u></b>	<b><u>\$ -</u></b>	<b><u>8,784</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts Payable	2,119	-	2,119
Due to Other Funds	3,035	-	3,035
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<b>5,154</b>	<b>-</b>	<b>5,154</b>
 <b><u>FUND BALANCE</u></b>			
Reserved for Local Streets	3,630	-	3,630
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCE</b>	<b>3,630</b>	<b>-</b>	<b>3,630</b>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 8,784</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,784</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**OTHER SUPPLEMENTAL INFORMATION**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS**

*YEAR ENDED JUNE 30, 2008*

	<u>LOCAL STREET FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL</u>
<b><u>REVENUE</u></b>			
Use of money and property	\$ 26	\$ -	\$ 26
Miscellaneous local revenue	-	-	-
Intergovernmental	<u>13,448</u>	<u>-</u>	<u>13,448</u>
<b>TOTAL REVENUE</b>	<b>\$ 13,474</b>	<b>\$ -</b>	<b>\$ 13,474</b>
<b><u>EXPENDITURES</u></b>			
Current:			
Highways and streets	19,282	-	19,282
Capital Outlay	-	-	-
Debt Service:			
Principal	-	4,706	4,706
Interest	<u>-</u>	<u>77</u>	<u>77</u>
<b>TOTAL EXPENDITURES</b>	<b>19,282</b>	<b>4,783</b>	<b>24,065</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(5,808)</b>	<b>(4,783)</b>	<b>(10,591)</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Operating transfers in	1,971	4,783	6,754
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<b>1,971</b>	<b>4,783</b>	<b>6,754</b>
<b>Net Change in Fund Balances</b>	<b>(3,837)</b>	<b>-</b>	<b>(3,837)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>7,467</u>	<u>-</u>	<u>7,467</u>
<b>FUND BALANCE - END OF YEAR</b>	<u><b>\$ 3,630</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 3,630</b></u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**ALL SPECIAL REVENUE FUNDS - COMBINING BALANCE SHEET**

*JUNE 30, 2008*

	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTAL</u>
<b><u>ASSETS</u></b>			
Cash and Deposits, Unrestricted	\$ 6,812	\$ 6,486	\$ 13,298
Accounts Receivable, State	7,499	2,060	9,559
Due from Other Funds	<u>254</u>	<u>238</u>	<u>492</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 14,565</u></b>	<b><u>\$ 8,784</u></b>	<b><u>\$ 23,349</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts Payable	\$ 4,246	2,119	6,365
Due to Other Funds	<u>238</u>	<u>3,035</u>	<u>3,273</u>
<b>TOTAL LIABILITIES</b>	4,484	5,154	9,638
<b><u>FUND EQUITY</u></b>			
Fund Balance, Reserved	<u>10,081</u>	<u>3,630</u>	<u>13,711</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 14,565</u></b>	<b><u>\$ 8,784</u></b>	<b><u>\$ 23,349</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**ALL SPECIAL REVENUE FUNDS - COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**

*FISCAL YEAR ENDED JUNE 30, 2008*

	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTAL</u>
<b><u>REVENUES</u></b>			
<b>LOCAL REVENUE</b>	\$ 54	\$ 26	\$ 80
Interest Income			
<b>STATE REVENUE</b>			
State Transportation Funds	<u>50,076</u>	<u>13,448</u>	<u>63,524</u>
<b>TOTAL REVENUES</b>	<b>50,130</b>	<b>13,474</b>	<b>63,604</b>
<b><u>EXPENDITURES</u></b>			
Administration	2,200	771	2,971
Routine Maintenance	27,524	11,590	39,114
Winter Maintenance	18,147	6,921	25,068
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<b>47,871</b>	<b>19,282</b>	<b>67,153</b>
Excess of Revenues Over (Under) Expenditures	2,259	(5,808)	(3,549)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Operating Transfers In (Out)	<u>(1,971)</u>	<u>1,971</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	288	(3,837)	(3,549)
FUND BALANCE, JULY 1	<u>9,793</u>	<u>7,467</u>	<u>17,260</u>
<b>FUND BALANCE, JUNE 30</b>	<b><u>\$ 10,081</u></b>	<b><u>\$ 3,630</u></b>	<b><u>\$ 13,711</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

## ALL ENTERPRISE FUNDS-COMBINING BALANCE SHEET

*JUNE 30, 2008*

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
<b><u>ASSETS</u></b>			
<b><i>Current Assets</i></b>			
Cash, unrestricted	\$ 28,251	\$ 3,019	\$ 31,270
Accounts Receivable	2,370	4,794	7,164
Grants Receivable	-	-	-
Due from other funds	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total Current Assets</b>	30,621	7,813	38,434
<b><i>Noncurrent Assets</i></b>			
Restricted cash	50,774	-	50,774
Capital assets:			
Construction in Progress	-	-	-
Buildings	44,163	-	44,163
Equipment	330,034	-	330,034
Infrastructure	1,217,553	482,194	1,699,747
Less:			
Allowance for depreciation	(505,418)	(67,469)	(572,887)
	<hr/>	<hr/>	<hr/>
Total capital assets, net	1,086,332	414,725	1,501,057
<b>Total Noncurrent Assets</b>	1,137,106	414,725	1,551,831
<b>TOTAL ASSETS</b>	<b>\$ 1,167,727</b>	<b>\$ 422,538</b>	<b>\$ 1,590,265</b>
<b><u>LIABILITIES</u></b>			
<b><i>Current Liabilities</i></b>			
Accounts payable	675	-	675
Due to other funds	1,500	23,681	25,181
Current portion of long-term debt	14,000	-	14,000
	<hr/>	<hr/>	<hr/>
<b>Total Current Liabilities</b>	16,175	23,681	39,856
<b><i>Non-current Liabilities</i></b>			
Revenue bonds payable	470,000	-	470,000
	<hr/>	<hr/>	<hr/>
<b>Total Non-current Liabilities</b>	470,000	-	470,000
<b>TOTAL LIABILITIES</b>	<b>\$ 486,175</b>	<b>\$ 23,681</b>	<b>\$ 509,856</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	602,332	414,725	1,017,057
Reserved	79,220	(15,868)	63,352
Unreserved, undesignated	-	-	-
	<hr/>	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<b>\$ 681,552</b>	<b>\$ 398,857</b>	<b>\$ 1,080,409</b>

The notes to the financial statements are an integral part of this report.



<b>CITY OF GAASTRA</b>
------------------------

**ALL ENTERPRISE FUNDS - COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN RETAINED EARNINGS**

*YEAR ENDED JUNE 30, 2008*

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL ENTERPRISE FUNDS</u>
<b><u>OPERATING REVENUES</u></b>			
Charges for Services	\$ 66,417	\$ 75,984	\$ 142,401
Miscellaneous	<u>438</u>	<u>          </u>	<u>438</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 66,855</b>	<b>\$ 75,984</b>	<b>\$ 142,839</b>
 <b><u>OPERATING EXPENSES</u></b>			
Personal Services and Benefits	1,048	-	1,048
Contractual Services	-	29,719	29,719
Repairs and Maintenance	977	-	977
Other Supplies and Expenses	29,407	11,868	41,275
Depreciation	<u>18,732</u>	<u>5,261</u>	<u>23,993</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 50,164</b>	<b>\$ 46,848</b>	<b>\$ 97,012</b>
 <b>OPERATING INCOME (LOSS)</b>	<b>16,691</b>	<b>29,136</b>	<b>45,827</b>
 <b><u>Non-Operating Revenues (Expenses)</u></b>			
Interest and Investment Revenue	1,068	12	1,080
Insurance Proceeds	-	-	-
Federal Grant	-	169,945	169,945
Interest Expense	<u>(13,889)</u>	<u>          </u>	<u>(13,889)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(12,821)</b>	<b>169,957</b>	<b>157,136</b>
 <b>Change in Net Assets</b>	<b>3,870</b>	<b>199,093</b>	<b>202,963</b>
 <b>NET ASSETS - BEGINNING OF YEAR</b>	<u>677,682</u>	<u>199,764</u>	<u>877,446</u>
 <b>NET ASSETS - END OF YEAR</b>	<u><b>\$ 681,552</b></u>	<u><b>\$ 398,857</b></u>	<u><b>\$ 1,080,409</b></u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
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**ALL ENTERPRISE FUNDS - COMBINING STATEMENT OF CASH FLOWS**

*FISCAL YEAR ENDED JUNE 30, 2008*

CASH FLOWS FROM (USED BY)	WATER FUND	SEWER FUND	TOTAL
<b><u>OPERATING ACTIVITIES</u></b>			
Net cash received from fees and services	\$ 67,170	\$ 76,591	\$ 143,761
Other operating revenues	438		438
Cash payments to employees for services	(1,048)		(1,048)
Cash payments for goods and services	(29,709)	(112,107)	(141,816)
Other operating expenses	-	-	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 36,851</b>	<b>\$ (35,516)</b>	<b>\$ 1,335</b>
<b><u>NON CAPITAL AND FINANCING ACTIVITIES</u></b>			
Increase (decrease) in due to other funds	(338)	19,846	19,508
(Increase) decrease in due from other funds	-	-	-
Net operating transfers in (out)	-	-	-
<b>NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES</b>	<b>(338)</b>	<b>19,846</b>	<b>19,508</b>
<b><u>CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Acquisition and construction of capital assets	-	(220,387)	(220,387)
Principal payment on long-term bonds	(8,000)	-	(8,000)
Interest paid on long-term bonds	(13,889)	-	(13,889)
Interest and tax expense	-	-	-
Proceeds from borrowings	-	-	-
Contributed capital grants	-	236,503	236,503
Insurance Proceeds	-	-	-
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (21,889)</b>	<b>\$ 16,116</b>	<b>\$ (5,773)</b>
<b><u>INVESTING ACTIVITIES</u></b>			
Interest Income	1,068	12	1,080
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>1,068</b>	<b>12</b>	<b>1,080</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>15,692</b>	<b>458</b>	<b>16,150</b>
Cash and Cash Equivalents, Beginning of Year	63,333	2,561	65,894
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 79,025</b>	<b>\$ 3,019</b>	<b>\$ 82,044</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**ALL ENTERPRISE FUNDS - COMBINING STATEMENT OF CASH FLOWS  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Operating Income (Loss)	\$ 16,691	\$ 29,136	\$ 45,827
Adjustment to reconcile operating income to net cash provided by operating activities:			
. Depreciation	18,732	5,261	23,993
. Provision for uncollectible accounts	-	-	-
. Changes in assets and liabilities :			-
(Increase) Decrease in accounts receivable	753	607	1,360
Increase (Decrease) in accounts payable	675	(70,520)	(69,845)
Increase (Decrease) in deferred revenue	-	-	-
Increase (Decrease) in customer deposits	-	-	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>\$ 36,851</u></b>	<b><u>\$ (35,516)</u></b>	<b><u>\$ 1,335</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**GENERAL FUND - COMPARATIVE BALANCE SHEET**

*JUNE 30, 2008 and 2007*

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Cash and Deposits, Unrestricted	\$ 104,416	\$ 91,955
Accounts Receivable, State	6,370	6,126
Taxes Receivable	5,146	6,008
Due from Other Funds	<u>28,234</u>	<u>9,288</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 144,166</u></b>	<b><u>\$ 113,377</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts Payable	787	-
Due to Other Funds	<u>254</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b>1,041</b>	<b>-</b>
<b><u>FUND EQUITY</u></b>		
Fund Balance, Unreserved	<u>143,125</u>	<u>113,377</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 144,166</u></b>	<b><u>\$ 113,377</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**GENERAL FUND - STATEMENT OF REVENUES - ACTUAL AND BUDGET**

*FISCAL YEAR ENDED JUNE 30, 2008*

(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<b>FISCAL YEAR ENDED JUNE 30, 2008</b>			<b>FISCAL YEAR ENDED 6/30/07</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>	
<b><u>LOCAL REVENUE</u></b>				
<b>Property Taxes</b>				
Current Levy	\$ 65,542	\$ 66,803	\$ (1,261)	\$ 59,670
Interest, Penalties and Collection Fees	694	346	348	971
<b>Total Property Taxes</b>	<b>66,236</b>	<b>67,149</b>	<b>(913)</b>	<b>60,641</b>
<b>Rental Income</b>				
Equipment Rental	54,653	52,013	2,640	53,771
Sign Rental	350	350	-	350
<b>Total Rental Income</b>	<b>55,003</b>	<b>52,363</b>	<b>2,640</b>	<b>54,121</b>
<b>Other Sources</b>				
Interest Income	3,688	3,548	140	3,450
Sale of Garbage Bags	9,736	9,736	-	8,995
Sale of Land	51,105	1,965	49,140	6,495
Sale of Assets	-	-	-	-
Miscellaneous	4,705	3,733	972	2,594
<b>Total Other Sources</b>	<b>69,234</b>	<b>18,982</b>	<b>50,252</b>	<b>21,534</b>
<b>TOTAL LOCAL REVENUE</b>	<b>190,473</b>	<b>138,494</b>	<b>51,979</b>	<b>136,296</b>
<b><u>STATE SHARED REVENUE</u></b>				
Sales Tax Distribution	47,464	57,635	(10,171)	49,695
Annual Maintenance	-	-	-	2,728
<b>TOTAL STATE SHARED REVENUE</b>	<b>47,464</b>	<b>57,635</b>	<b>(10,171)</b>	<b>52,423</b>
<b>TOTAL REVENUE</b>	<b>237,937</b>	<b>196,129</b>	<b>41,808</b>	<b>188,719</b>
<b><u>OTHER FINANCING SOURCES</u></b>				
Loan Proceeds	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>\$ 237,937</b>	<b>\$ 196,129</b>	<b>\$ 41,808</b>	<b>\$ 188,719</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**GENERAL FUND - STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET**

*FISCAL YEAR ENDED JUNE 30, 2008*

(With Comparative Totals for Fiscal Year ended June 30, 2007)

	<b>FISCAL YEAR ENDED JUNE 30, 2008</b>			<b>FISCAL YEAR ENDED 6/30/07</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>	
<b><u>LEGISLATIVE</u></b>				
Commissioner Fees	\$ 5,390	\$ 5,390	\$ -	\$ 4,125
Fringe Benefits	412	412		316
Supplies	-	-	-	-
Legal Fees	3,761	3,761		6,942
Accounting / Audit	1,554	1,554	-	525
Printing and Publishing	162	162		30
Contract Services	270	270	-	300
Other Benefits				
Dues				721
<b>TOTAL LEGISLATIVE</b>	<b>\$ 11,549</b>	<b>\$ 11,549</b>	<b>\$ -</b>	<b>\$ 12,959</b>
<b><u>GENERAL GOVERNMENT</u></b>				
<b>City Manager</b>				
Salary	16,726	16,726	-	13,406
Fringe Benefits	1,280	1,280		4,799
Fees		-	-	20
Insurance	9,694	9,694		9,694
Supplies		-	-	56
Other Benefits	3,294		(3,294)	
Printing and Publishing	46	46		
Dues	110	-	(110)	
Miscellaneous				119
<b>Total City Manager</b>	<b>31,150</b>	<b>27,746</b>	<b>(3,404)</b>	<b>28,094</b>
<b>City Clerk / Treasurer</b>				
Salary	32,991	32,991	-	30,461
Fringe Benefits	2,525	2,525		5,983
Contract Services	489	489	-	898
Fees	-			
Insurance	14,680	14,680	-	14,326
Supplies	18		(18)	-
Other	3,196		(3,196)	438
<b>Total City Clerk / Treasurer</b>	<b>\$ 53,899</b>	<b>\$ 50,685</b>	<b>\$ (3,214)</b>	<b>\$ 52,106</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**GENERAL FUND - STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>FISCAL YEAR ENDED JUNE 30, 2008</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>FAVORABLE</u>	<u>ENDED</u>
			<u>(UNFAVORABLE)</u>	<u>6/30/07</u>
<b><u>GENERAL GOVERNMENT (continued)</u></b>				
<b>Cemetery</b>				
Stambaugh Cemetery Association	\$ 2,712	\$ 2,712	\$ -	\$ 5,424
<b>Total Cemetery</b>	<b>\$ 2,712</b>	<b>\$ 2,712</b>	<b>\$ -</b>	<b>\$ 5,424</b>
 <b>City Property</b>				
Salary	\$ 2,772	\$ 2,772	\$ -	\$ 1,428
Fringe Benefits	212	212		109
Contract Services	570	570	-	724
Supplies and Other	2,995	2,995		2,706
Utilities	17,034	17,034		16,600
<b>Total City Property</b>	<b>23,583</b>	<b>23,583</b>	<b>-</b>	<b>21,567</b>
 <b>Assessor / Equalization</b>				
Personal Services	2,171	2,171	-	1,528
Printing and Publishing	105	105		
Supplies	116	116		-
<b>Total Assessor</b>	<b>2,392</b>	<b>2,392</b>	<b>-</b>	<b>1,528</b>
 <b>Elections</b>				
Printing and Publishing	132	132	-	35
Supplies	1,188	1,188		1,189
Fees	1,358	1,358		1,379
Other		-	-	199
<b>Total Elections</b>	<b>\$ 2,678</b>	<b>\$ 2,678</b>	<b>\$ -</b>	<b>\$ 2,802</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**GENERAL FUND - STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<b>FISCAL YEAR ENDED JUNE 30, 2008</b>			<b>FISCAL YEAR ENDED 6/30/07</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>	
<b>GENERAL GOVERNMENT (continued)</b>				
<b>Board of Review</b>				
Fees	\$ -	\$ -	\$ -	\$ 125
Printing and Publishing	110	110		44
<b>Total Board of Review</b>	<b>110</b>	<b>110</b>	<b>-</b>	<b>169</b>
 <b>Computer</b>	 <b>1,318</b>	 <b>1,318</b>	 <b>-</b>	 <b>-</b>
 <b>TOTAL GENERAL GOVERNMENT</b>	 <b>\$ 117,842</b>	 <b>\$ 111,224</b>	 <b>\$ (6,618)</b>	 <b>\$ 111,690</b>
 <b>PUBLIC SAFETY - FIRE</b>				
Caspian - Gaastra Fire Authority Assessment	10,021	10,073	52	10,073
<b>TOTAL PUBLIC SAFETY</b>	<b>\$ 10,021</b>	<b>\$ 10,073</b>	<b>\$ 52</b>	<b>\$ 10,073</b>
 <b>PUBLIC WORKS</b>				
Salary	\$ 23,187	\$ 23,187	\$ -	\$ 19,295
Fringe Benefits	1,774	1,774		1,476
Printing/Publishing	-	-	-	-
Contract Services	1,184	1,184		330
Equipment Rental	4,166	8,949		2,363
Fuel, Grease and Oil	4,899	4,899	-	6,345
Other Costs	241	242		83
Other Benefits	1,954			
Repairs and Maintenance	927	140	-	580
Supplies	4,284	4,284		2,907
Utilities	2,675	2,675		2,523
<b>TOTAL PUBLIC WORKS</b>	<b>\$ 45,291</b>	<b>\$ 47,334</b>	<b>\$ 2,043</b>	<b>\$ 35,902</b>
 <b>PARKS AND RECREATION</b>				
Salary	662	662	-	1,408
Fringe Benefits	51	51		108
Supplies	694	694		240
Other	333	333		1,800
<b>TOTAL PARKS AND RECREATION</b>	<b>\$ 1,740</b>	<b>\$ 1,740</b>	<b>\$ -</b>	<b>\$ 3,556</b>

The notes to the financial statements are an integral part of this report.



<b>CITY OF GAASTRA</b>
------------------------

**GENERAL FUND - STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<b>FISCAL YEAR ENDED JUNE 30, 2008</b>			<b>FISCAL YEAR ENDED 6/30/07</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>	
<b>SANITATION</b>				
Collection Fees	\$ 8,270	\$ 8,270	\$ -	\$ 8,029
Supplies				1,724
<b>TOTAL SANITATION</b>	<b>\$ 8,270</b>	<b>\$ 8,270</b>	<b>\$ -</b>	<b>\$ 9,753</b>
 <b>STREET LIGHTING</b>	 5,740	 5,740	 -	 5,434
 <b>CAPITAL OUTLAY</b>	 -	 -	 -	 7,500
 <b>OTHER</b>				
Insurance	1,881	10,433	-	2,571
Community Promotion	1,072	1,072		2,643
<b>TOTAL OTHER</b>	<b>2,953</b>	<b>11,505</b>	<b>8,552</b>	<b>5,214</b>
 <b>TOTAL EXPENDITURES</b>	 <b>\$203,406</b>	 <b>\$ 207,435</b>	 <b>\$ 4,029</b>	 <b>\$ 202,081</b>
 <b><u>OTHER FINANCING USES :</u></b>				
<b>Transfer to Other Funds :</b>				
Local Street Fund	-	-	-	-
Debt Service Fund	4,783		(4,783)	3,315
<b>TOTAL OTHER FINANCING USES</b>	<b>4,783</b>	<b>-</b>	<b>(4,783)</b>	<b>3,315</b>
 <b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	 <b><u>\$208,189</u></b>	 <b><u>\$ 207,435</u></b>	 <b><u>\$ (754)</u></b>	 <b><u>\$ 205,396</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**MAJOR STREET FUND - COMPARATIVE BALANCE SHEET**

*JUNE 30, 2008 and 2007*

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Cash and Deposits, Unrestricted	\$ 6,812	\$ 5,427
Accounts Receivable, State	7,499	7,655
Due from Other Funds	<u>254</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 14,565</u></b>	<b><u>\$ 13,082</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts Payable	4,246	-
Due to Other Funds	<u>238</u>	<u>3,289</u>
<b>TOTAL LIABILITIES</b>	4,484	3,289
<b><u>FUND EQUITY</u></b>		
Fund Balance, Reserved	<u>10,081</u>	<u>9,793</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 14,565</u></b>	<b><u>\$ 13,082</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**MAJOR STREET FUND - STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND EQUITY - ACTUAL AND BUDGET**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<b>FISCAL YEAR ENDED JUNE 30, 2008</b>			<b>FISCAL YEAR ENDED 6/30/07</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>	
<b>REVENUES</b>				
<b>Local Sources</b>				
Interest Income	\$ 54	\$ 51	\$ 3	\$ 7
<b>Total Local Sources</b>	<b>54</b>	<b>51</b>	<b>3</b>	<b>7</b>
<b>State Sources</b>				
Metro Act	2,758	-	2,758	-
State Transportation Funds	47,318	45,504	1,814	51,633
<b>Total State Sources</b>	<b>50,076</b>	<b>45,504</b>	<b>4,572</b>	<b>51,633</b>
<b>TOTAL REVENUES</b>	<b>50,130</b>	<b>45,555</b>	<b>4,575</b>	<b>51,640</b>
<b>EXPENDITURES</b>				
<b>Administration</b>				
Legal and Accounting	1,000	1,000	-	1,400
Contract Services	1,200	1,200		2,000
<b>Total Administration</b>	<b>2,200</b>	<b>2,200</b>	<b>-</b>	<b>3,400</b>
<b>Routine Maintenance</b>				
Salaries and Wages	3,806	3,806	-	554
Fringe Benefits	291	291		42
Supplies	7,023	2,779	-	7,849
Equipment Rental	16,404	16,950		19,373
<b>Total Routine Maintenance</b>	<b>27,524</b>	<b>23,826</b>	<b>(3,698)</b>	<b>27,818</b>
<b>Winter Maintenance</b>				
Salaries and Wages	3,842	3,482	-	1,627
Fringe Benefits	294	294		124
Equipment Rental	11,614	11,614	-	10,123
Supplies	2,397	2,397		2,823
<b>Total Winter Maintenance</b>	<b>18,147</b>	<b>18,147</b>	<b>-</b>	<b>14,697</b>
<b>Capital Outlay</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 47,871</b>	<b>\$ 44,173</b>	<b>\$ (3,698)</b>	<b>\$ 45,915</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**MAJOR STREET FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND EQUITY – ACTUAL AND BUDGET  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<b>FISCAL YEAR ENDED JUNE 30, 2008</b>			<b>FISCAL YEAR ENDED 6/30/07</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>	
Excess of Revenues Over (Under) Expenditures	\$ 2,259	\$ 1,382	\$ 877	\$ -
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In (Out)	<u>(1,971)</u>	<u>-</u>	<u>(1,971)</u>	<u>(1,208)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	288	1,382	(1,094)	(1,208)
FUND BALANCE, JULY 1	<u>9,793</u>			<u>5,276</u>
<b>FUND BALANCE, JUNE 30</b>	<b><u>\$ 10,081</u></b>			<b><u>\$ 4,068</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
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**LOCAL STREET FUND - COMPARATIVE BALANCE SHEET**

*JUNE 30, 2008 and 2007*

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Cash and Deposits, Unrestricted	\$ 6,486	\$ 5,657
Accounts Receivable, State	2,060	2,100
Due from Other Funds	<u>238</u>	<u>238</u>
<b>TOTAL ASSETS</b>	<b><u>8,784</u></b>	<b><u>7,995</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts Payable	2,119	528
Due to Other Funds	<u>3,035</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b><u>5,154</u></b>	<b><u>528</u></b>
<b><u>FUND EQUITY</u></b>		
Fund Balance, Reserved	<u>3,630</u>	<u>7,467</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 8,784</u></b>	<b><u>\$ 7,995</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
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**LOCAL STREET FUND - STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND EQUITY - ACTUAL AND BUDGET**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<b>FISCAL YEAR ENDED JUNE 30, 2008</b>			<b>FISCAL YEAR ENDED 6/30/07</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>	
<b>REVENUES</b>				
<b>State Sources</b>				
State Transportation Funds	\$ 13,448	\$ 15,458	\$ -	\$ 14,416
Interest	26	21		
<b>TOTAL REVENUES</b>	<b>\$ 13,474</b>	<b>\$ 15,479</b>	<b>\$ (2,005)</b>	<b>\$ 14,416</b>
<b>EXPENDITURES</b>				
<b>Administration</b>				
Legal and Accounting	200	200	-	500
Supplies	200	200		
Contract Services	371	371		700
<b>Total Administration</b>	<b>771</b>	<b>771</b>	<b>-</b>	<b>1,200</b>
<b>Routine Maintenance</b>				
Salaries and Wages	1,012	1,012	-	714
Fringe Benefits	78	77		55
Supplies	2,901	782	-	1,660
Contracted Services	-	-		-
Equipment Rental	6,713	4,206		2,030
Other	886	903	-	18
<b>Total Routine Maintenance</b>	<b>11,590</b>	<b>6,980</b>	<b>(4,610)</b>	<b>4,477</b>
<b>Winter Maintenance</b>				
Salaries and Wages	1,177	1,177	-	408
Fringe Benefits	90	90		31
Equipment Rental	4,654	4,654	-	2,685
Supplies	1,000	1,000		1,000
<b>Total Winter Maintenance</b>	<b>\$ 6,921</b>	<b>\$ 6,921</b>	<b>\$ -</b>	<b>\$ 4,124</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
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**LOCAL STREET FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – ACTUAL AND BUDGET  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>FISCAL YEAR ENDED JUNE 30, 2008</u>			<u>FISCAL YEAR ENDED 6/30/07</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	
<b>Capital Outlay</b>	-	-	-	-
<b>TOTAL EXPENDITURES</b>	\$ 19,282	\$ 14,672	\$ (4,610)	\$ 9,801
Excess of Revenues Over (Under) Expenditures	(5,808)	807	(6,615)	4,615
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In (Out)	<u>1,971</u>	<u>-</u>	<u>1,971</u>	<u>1,208</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,837)	807	(4,644)	5,823
FUND BALANCE, JULY 1	<u>7,467</u>			<u>1,644</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ 3,630</u></u>			<u><u>\$ 7,467</u></u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
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**DEBT SERVICE FUND – BALANCE SHEET**

*JUNE 30, 2008*

**ASSETS**

Cash and Deposits	\$ -
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<b>TOTAL ASSETS</b>	<b>\$ -</b>
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**FUND EQUITY**

Fund Balance, Reserved	\$ -
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<b>TOTAL FUND EQUITY</b>	<b>\$ -</b>
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The notes to the financial statements are an integral part of this report.



<b>CITY OF GAASTRA</b>
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**DEBT SERVICE FUND – STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE**

*FISCAL YEAR ENDED JUNE 30, 2008*

**REVENUES**

Interest Income	\$ -
<b>TOTAL REVENUES</b>	<b>\$ -</b>

**EXPENDITURES**

**Debt Service**

Principal	4,706
Interest	<u>77</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,783</b>

Excess of Revenues Over (Under)	
Expenditures	(4,783)

**OTHER FINANCING SOURCES (USES)**

Operating Transfers In (Out)	4,783
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Excess of Revenues and Other Sources	
Over (Under) Expenditures and Other Uses	0

FUND BALANCE, JULY 1	<u>-</u>
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<b>FUND BALANCE, JUNE 30</b>	<b><u><u>\$ 0</u></u></b>
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The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
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**WATER FUND – COMPARATIVE BALANCE SHEET**

*JUNE 30, 2008 and 2007*

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Cash and Deposits, Unrestricted	\$ 28,251	\$ 23,039
Cash and Deposits, Restricted	50,774	40,294
Accounts Receivable		
State Sources	-	-
Other Sources	2,370	3,123
Property, Plant, and Equipment (Net of Depreciation)	<u>1,086,332</u>	<u>1,105,064</u>
<b>TOTAL ASSETS</b>	<b><u>1,167,727</u></b>	<b><u>1,171,520</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b><u>LIABILITIES</u></b>		
Due to Other Funds	1,500	1,838
Accounts Payable	675	-
Current Notes/ Bonds	14,000	
Long-Term Notes / Bonds Payable	<u>470,000</u>	<u>492,000</u>
<b>TOTAL LIABILITIES</b>	<b>486,175</b>	<b>493,838</b>
<b><u>FUND EQUITY</u></b>		
Retained Earnings	<u>681,552</u>	<u>677,682</u>
<b>TOTAL FUND EQUITY</b>	<b><u>681,552</u></b>	<b><u>677,682</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 1,167,727</u></b>	<b><u>\$ 1,171,520</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**WATER FUND - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<b><u>OPERATING REVENUES</u></b>		
<b>Charges for Services</b>		
User Fees	\$ 61,017	\$ 63,003
Hydrant Fees	5,400	5,400
Other Revenue	<u>438</u>	<u>30</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 66,855</b>	<b>\$ 68,433</b>
<b><u>OPERATING EXPENSES</u></b>		
<b>Administration</b>		
Supplies	\$ 247	\$ 193
Printing and Publishing	395	612
Legal and Audit	3,572	2,971
Contract Services	-	-
Training / Travel	150	307
Other	<u>765</u>	<u>136</u>
<b>Total Administration</b>	<b>5,129</b>	<b>4,219</b>
<b>Water Lines / Samples</b>		
Salaries and Wages	-	2,573
Fringe Benefits		196
Supplies	1,023	231
Equipment Rental	3,043	1,269
Fees	1,625	588
Other	<u>-</u>	<u>1,019</u>
<b>Total Water Lines / Samples</b>	<b>5,691</b>	<b>5,876</b>
<b>Hydrants</b>		
Equipment Rental	<u>-</u>	<u>-</u>
<b>Total Hydrants</b>	<b>-</b>	<b>-</b>
<b>Pumps / Lift Stations</b>		
Salaries and Wages	974	686
Fringe Benefits	74	53
Supplies	285	585
Utilities	5,513	5,192
Repairs and Maintenance	977	
Equipment Rental	7,203	4,000
Contracted Services	<u></u>	<u>28,207</u>
<b>Total Pumps / Lift Stations</b>	<b>\$ 15,026</b>	<b>\$ 38,723</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**WATER FUND - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

<b><u>OPERATING EXPENSES (continued)</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Water Tank</b>		
Equipment Rental	\$ -	\$ -
Repairs and Maintenance	-	31,840
Fees	178	-
	<u>178</u>	<u>-</u>
<b>Total Water Tank</b>	<b>178</b>	<b>31,840</b>
<b>Meters</b>		
Salaries and Wages	-	-
Fringe Benefits	-	-
Supplies		1,585
Equipment-Small	1,208	
Fees	1,200	1,200
	<u>1,200</u>	<u>1,200</u>
<b>Total Meters</b>	<b>2,408</b>	<b>2,785</b>
<b>Other Expenses</b>		
Insurance	3,000	4,000
Depreciation	18,732	18,732
	<u>18,732</u>	<u>18,732</u>
<b>Total Other Expenses</b>	<b>21,732</b>	<b>22,732</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>50,164</b>	<b>106,175</b>
OPERATING INCOME (LOSS)	16,691	(37,742)
<b>Non-Operating Revenue</b>		
Interest Income	1,068	1,198
Insurance Proceeds		27,767
<b>Non-Operating Expenses</b>		
Interest and Fiscal Charges	(13,889)	(20,352)
<b>NET INCOME (LOSS)</b>	<b>3,870</b>	<b>(29,129)</b>
<b>RETAINED EARNINGS, JULY 1</b>	<u>677,682</u>	<u>706,811</u>
<b>RETAINED EARNINGS, JUNE 30</b>	<u><b>\$ 681,552</b></u>	<u><b>\$ 677,682</b></u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**WATER FUND - STATEMENT OF CASH FLOWS**

*FISCAL YEAR ENDED JUNE 30, 2008*

(With Comparative Totals for Fiscal Year Ended June 30, 2007)

<b>CASH FLOWS FROM (USED BY)</b>	<b>2008</b>	<b>2007</b>
<b><u>OPERATING ACTIVITIES</u></b>		
Net cash received from fees and services	\$ 67,170	\$ 66,747
Other operating revenues	438	30
Cash payments to employees for services	(1,048)	(3,508)
Cash payments for goods and services	(29,709)	(85,948)
Other operating expenses	-	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>36,851</b>	<b>(22,679)</b>
<b><u>NON CAPITAL AND FINANCING ACTIVITIES</u></b>		
Increase (decrease) in due to other funds	(338)	(526)
(Increase) decrease in due from other funds	-	-
Net operating transfers in (out)	-	-
<b>NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES</b>	<b>(338)</b>	<b>(526)</b>
<b><u>CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Acquisition and construction of capital assets	-	-
Principal payment on long-term bonds	(8,000)	(13,000)
Interest paid on long-term bonds	(13,889)	(20,352)
Interest and tax expense	-	-
Proceeds from borrowings	-	-
Contributed capital grants	-	-
Insurance Proceeds	-	27,767
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(21,889)</b>	<b>(5,585)</b>
<b><u>INVESTING ACTIVITIES</u></b>		
Interest Income	1,068	1,198
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>1,068</b>	<b>1,198</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>15,692</b>	<b>(27,592)</b>
Cash and Cash Equivalents, Beginning of Year	63,333	90,925
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 79,025</b>	<b>\$ 63,333</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
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**WATER FUND - STATEMENT OF CASH FLOWS  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>2008</u>	<u>2006</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Operating Income (Loss)	\$ 16,691	\$ (37,742)
Adjustment to reconcile operating income to net cash provided by operating activities:		
. Depreciation	18,732	18,732
. Provision for uncollectible accounts	-	-
. Changes in assets and liabilities :		
(Increase) Decrease in accounts receivable	753	(1,656)
Increase (Decrease) in accounts payable	675	(2,013)
Increase (Decrease) in deferred revenue	-	-
Increase (Decrease) in customer deposits	-	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>\$ 36,851</u></b>	<b><u>\$ (22,679)</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**SEWER FUND - COMPARATIVE BALANCE SHEET**

*JUNE 30, 2008 and 2007*

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Cash and Deposits, Unrestricted	\$ 3,019	\$ 2,561
Accounts Receivable		
State Sources	-	-
Other Sources	4,794	5,401
Grants Receivable	-	66,558
Construction in Progress	-	88,697
Property, Plant, and Equipment (Net of Depreciation)	<u>414,725</u>	<u>110,902</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 422,538</u></b>	<b><u>\$ 274,119</u></b>
 <b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts Payable	-	70,520
Due To Other Funds	<u>23,681</u>	<u>3,835</u>
<b>TOTAL LIABILITIES</b>	<b>23,681</b>	<b>74,355</b>
 <b><u>FUND EQUITY</u></b>		
Retained Earnings	<u>398,857</u>	<u>199,764</u>
<b>TOTAL FUND EQUITY</b>	<b>398,857</b>	<b>199,764</b>
 <b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 422,538</u></b>	<b><u>\$ 274,119</u></b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**SEWER FUND - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS**

*FISCAL YEAR ENDED JUNE 30, 2008*

(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<b><u>OPERATING REVENUES</u></b>		
<b>Charges for Services</b>		
User Fees	\$ 69,384	\$ 64,147
Sewer Line Fees	6,600	6,600
Other Revenue		60
	<hr/>	<hr/>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 75,984</b>	<b>\$ 70,807</b>
<b><u>OPERATING EXPENSES</u></b>		
<b>Administration</b>		
Supplies	247	252
Legal and Audit	2,222	1,250
Printing and Publishing	91	381
Contract Services	-	337
Other	700	165
	<hr/>	<hr/>
<b>Total Administration</b>	<b>3,260</b>	<b>2,385</b>
<b>Operation of Plant (Lift Stations/Pump)</b>		
Salaries	-	962
Fringe Benefits	-	74
Supplies	254	404
Insurance	2,000	2,000
Utilities	692	470
Fees	639	
Equipment Rental	5,023	5,721
	<hr/>	<hr/>
<b>Total Operation of Plant</b>	<b>8,608</b>	<b>9,631</b>
<b>Operation of Lines</b>		
Salaries	-	1,924
Fringe Benefits	-	147
Supplies	-	677
Equipment Rental	-	8,570
Other	-	307
	<hr/>	<hr/>
<b>Total Operation of Lines</b>	<b>-</b>	<b>11,625</b>
<b>Sewer Treatment</b>		
Contract Services - West Iron County Sewer Authority	29,719	29,344
	<hr/>	<hr/>
<b>Total Sewer Treatment</b>	<b>\$ 29,719</b>	<b>\$ 29,344</b>

The notes to the financial statements are an integral part of this report.



<b>CITY OF GAASTRA</b>
------------------------

**SEWER FUND - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal year ended June 30, 2007)

<b><u>OPERATING EXPENSES (continued)</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Other Expenses</b>		
Depreciation	\$ 5,261	\$ 3,478
<b>Total Other Expenses</b>	<b>5,261</b>	<b>3,478</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>46,848</b>	<b>56,463</b>
 OPERATING INCOME (LOSS)	 29,136	 14,344
 <b>Non-Operating Revenue</b>		
Interest Income	12	18
Federal Grant	169,945	66,558
 <b>NET INCOME (LOSS)</b>	 <b>199,093</b>	 <b>80,920</b>
 <b>RETAINED EARNINGS, JULY 1</b>	 <u>199,764</u>	 <u>118,844</u>
<b>RETAINED EARNINGS, JUNE 30</b>	<u><b>\$ 398,857</b></u>	<u><b>\$ 199,764</b></u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**SEWER FUND - STATEMENT OF CASH FLOWS**

*FISCAL YEAR ENDED JUNE 30, 2008*

(With Comparative Totals for Fiscal Year Ended June 30, 2007)

<b>CASH FLOWS FROM (USED BY)</b>	<b>2008</b>	<b>2007</b>
<b><u>OPERATING ACTIVITIES</u></b>		
Net cash received from fees and services	\$ 76,591	\$ 67,747
Other operating revenues	-	60
Cash payments to employees for services	-	(3,107)
Cash payments for goods and services	(112,107)	(49,878)
Other operating expenses	-	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>(35,516)</b>	<b>14,822</b>
<b><u>NON CAPITAL AND FINANCING ACTIVITIES</u></b>		
Increase (decrease) in due to other funds	19,846	(3,659)
(Increase) decrease in due from other funds	-	-
Net operating transfers in (out)	-	-
<b>NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES</b>	<b>19,846</b>	<b>(3,659)</b>
<b><u>CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Acquisition and construction of capital assets	(220,387)	(18,177)
Principal payment on long-term bonds	-	-
Interest paid on long-term bonds	-	-
Interest and tax expense	-	-
Proceeds from borrowings	-	-
Contributed capital grants	236,503	-
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>16,116</b>	<b>(18,177)</b>
<b><u>INVESTING ACTIVITIES</u></b>		
Interest Income	12	18
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>12</b>	<b>18</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>458</b>	<b>(6,996)</b>
Cash and Cash Equivalents, Beginning of Year	2,561	9,557
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 3,019</b>	<b>\$ 2,561</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
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**SEWER FUND - STATEMENT OF CASH FLOWS  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2008*  
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Operating Income (Loss)	\$ 29,136	\$ 14,344
Adjustment to reconcile operating income to net cash provided by operating activities:		
. Depreciation	5,261	3,478
. Provision for uncollectible accounts	-	-
. Changes in assets and liabilities :		
(Increase) Decrease in accounts receivable	607	(3,000)
Increase (Decrease) in accounts payable	(70,520)	-
Increase (Decrease) in deferred revenue	-	-
Increase (Decrease) in customer deposits	-	-
	<u>-</u>	<u>-</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>\$ (35,516)</u></b>	<b><u>\$ 14,822</u></b>

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

# ***DS Rostagno, CPA, P.C.***

***101 West Maple Street, Iron River, MI 49935  
Tel (906) 265-1040 Fax (906) 265-1042***

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members of the City Council

**City of Gaastra**

PO Box 218

Gaastra, Michigan 49927

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Gaastra**, State of Michigan as of and for the year ended June 30, 2008, which collectively comprise the **City of Gaastra**, State of Michigan's basic financial statements, and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and by the standards prescribed by the State Treasurer.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **City of Gaastra**, State of Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the **City of Gaastra**, State of Michigan's internal control over financial reporting. Accordingly, we do not express opinions on the effectiveness of the **City of Gaastra**, State of Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **City of Gaastra**, State of Michigan's ability to initiate, authorize, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **City of Gaastra**, State of Michigan's financial statements that is more than inconsequential will not be prevented or detected by the **City of Gaastra**, State of Michigan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **City of Gaastra**, State of Michigan's internal control.

#### Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **City of Gaastra**, State of Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the **City of Gaastra**, State of Michigan, in a separate letter dated December 18, 2008.

This report is intended solely for the information and use of the management, City Council, and federal awarding agencies and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with a large, stylized initial "D".

Dianne S. Rostagno  
DS ROSTAGNO, CPA, P.C.

December 18, 2008